

VERTUS CHARTER SCHOOL

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals for 2016)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Vertus Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Vertus Charter School, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vertus Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Vertus Charter School's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017 on our consideration of Vertus Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vertus Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 26, 2017

VERTUS CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With Comparative Totals for 2016)

<u>ASSETS</u>	June 30,	
	2017	2016
<u>CURRENT ASSETS</u>		
Cash	\$ 409,367	\$ 510,084
Cash in escrow	75,000	50,000
Grants and other receivables	173,577	177,270
Prepaid expenses and other current assets	85,505	15,178
TOTAL CURRENT ASSETS	743,449	752,532
<u>PROPERTY AND EQUIPMENT, net</u>	764,549	345,285
TOTAL ASSETS	\$ 1,507,998	\$ 1,097,817
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt	\$ 57,795	\$ 95,377
Accounts payable and accrued expenses	152,711	152,360
Accrued payroll and benefits	111,129	55,248
Deferred revenue	185,736	228,942
TOTAL CURRENT LIABILITIES	507,371	531,927
<u>DEFERRED LEASE LIABILITY</u>	171,720	-
<u>LONG-TERM DEBT</u>	177,714	235,469
<u>NET ASSETS</u>		
Unrestricted	521,673	285,898
Temporarily restricted	129,520	44,523
TOTAL NET ASSETS	651,193	330,421
TOTAL LIABILITIES AND NET ASSETS	\$ 1,507,998	\$ 1,097,817

The accompanying notes are an integral part of the financial statements.

VERTUS CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Year ended June 30,			2016
	2017		Total	
	Unrestricted	Temporarily restricted		
Operating revenue and support:				
State and local per pupil				
operating revenue	\$ 4,038,124	\$ -	\$ 4,038,124	\$ 2,088,808
Government grants	424,665	-	424,665	320,603
Private grants	-	-	-	283,000
Contributions	112,738	340,540	453,278	92,480
Fundraising	7,483	-	7,483	-
In-kind contributions	1,000	-	1,000	35,345
Interest income	25	-	25	-
Other income	50	-	50	100
Net assets released from restriction	255,543	(255,543)	-	-
TOTAL OPERATING				
REVENUE AND SUPPORT	4,839,628	84,997	4,924,625	2,820,336
Expenses:				
Program:				
Regular education	2,863,373	-	2,863,373	1,706,474
Special education	1,083,781	-	1,083,781	577,196
Management and general	616,217	-	616,217	574,081
Fundraising and special events	40,482	-	40,482	39,683
TOTAL EXPENSES	4,603,853	-	4,603,853	2,897,434
CHANGE IN NET ASSETS	235,775	84,997	320,772	(77,098)
Net assets at beginning of year	285,898	44,523	330,421	407,519
NET ASSETS AT				
END OF YEAR	\$ 521,673	\$ 129,520	\$ 651,193	\$ 330,421

The accompanying notes are an integral part of the financial statements.

VERTUS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
 (With Comparative Totals for 2016)

	Year Ended June 30, 2017							Year ended June 30, 2016
	Program Services			Supporting Services			Total	
	No. of Positions	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events		
Personnel services costs:								
Administrative staff personnel		\$ 143,421	\$ 37,665	\$ 181,086	\$ 289,811	\$ 22,803	\$ 312,614	\$ 410,370
Instructional personnel		1,131,424	515,891	1,647,315			1,647,315	863,146
Non-instructional personnel		<u>196,402</u>	<u>39,093</u>	<u>235,495</u>	<u>32,802</u>		<u>32,802</u>	<u>181,403</u>
Total salaries and wages	36	1,471,247	592,649	2,063,896	322,613	22,803	345,416	1,454,919
Fringe benefits and payroll taxes	14							
Retirement	57	243,459	98,070	341,529	53,385	3,774	57,159	212,952
Legal services		26,983	10,870	37,853	5,917	418	6,335	35,649
Accounting/Audit fees					3,557		3,557	32,764
Professional fees - other					15,100		15,100	17,800
Building and land rent		69,640	25,017	94,657	51,852	1,088	52,940	203,023
Repairs and maintenance		299,781	120,758	420,539	65,735	4,646	70,381	149,992
Insurance		91,985	37,053	129,038	20,170	1,425	21,595	150,633
Utilities		23,680	9,539	33,219	5,193	367	5,560	38,779
Supplies and materials		168,344	36,138	204,482	3,762	266	4,028	28,096
Non-capitalized equipment and furnishings		5,212		6,991	2,829	200	3,029	207,511
Professional development			1,779	6,991			854	7,845
Student and staff recruitment		17,157		17,577	798	56	5,458	27,119
Information technology			6,911	4,084	5,414		2,892	68,731
Food service		52,816		13,023	2,701	44	2,892	65,920
Student services		103,190		41,567	22,627	1,599	24,226	168,983
Office expenses			429	2,587			2,587	981
Depreciation and amortization		216,880	24,156	141,036	958		1,026	142,062
Other		59,945	24,148	84,093	13,144	689	14,073	98,166
		83,757	33,739	117,496	18,366	1,298	19,664	137,160
			13,413	13,413	2,096	1,310	3,406	16,819
		<u>9,562</u>	<u>3,851</u>	<u>13,413</u>	<u>2,096</u>	<u>1,310</u>	<u>3,406</u>	<u>16,819</u>
		<u>\$ 2,863,373</u>	<u>\$ 1,083,781</u>	<u>\$ 3,947,154</u>	<u>\$ 616,217</u>	<u>\$ 40,482</u>	<u>\$ 656,699</u>	<u>\$ 4,603,853</u>
				<u>\$ 2,897,434</u>				<u>\$ 2,897,434</u>

The accompanying notes are an integral part of the financial statements.

VERTUS CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Year ended June 30,	
	2017	2016
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 320,772	\$ (77,098)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	137,160	116,687
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	3,693	(36,799)
Prepaid expenses and other current assets	(70,327)	(2,194)
Security deposits	-	12,500
Accounts payable and accrued expenses	351	34,688
Accrued payroll and benefits	55,881	21,166
Deferred revenue	(43,206)	(5,344)
Deferred lease liability	171,720	(20,000)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	576,044	43,606
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(556,424)	(225,399)
Change in cash in escrow	(25,000)	(25,000)
NET CASH USED FOR INVESTING ACTIVITIES	(581,424)	(250,399)
<u>CASH FLOWS- FINANCING ACTIVITIES</u>		
Borrowings on long-term debt	-	300,000
Repayments on long-term debt	(95,337)	(9,154)
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(95,337)	290,846
NET (DECREASE) INCREASE IN CASH	(100,717)	84,053
Cash at beginning of year	510,084	426,031
CASH AT END OF YEAR	\$ 409,367	\$ 510,084
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	\$ 12,416	\$ 2,125

The accompanying notes are an integral part of the financial statements.

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Vertus Charter School (the “Charter School”) is an educational corporation that operates as a charter school in Rochester, New York. On December 17, 2013 the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2017 or 2016.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had \$129,520 and \$44,523 of temporarily restricted net assets at June 30, 2017 and 2016, respectively.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at financial institutions located in Rochester, New York and are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2017 and 2016.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from two to ten years.

Deferred lease liability

The Charter School leases its facility. The lease contains pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease liability.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs were \$68,731 and \$65,920 for the years ended June 30, 2017 and 2016, respectively.

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed. The Charter School receives transportation services and food supplies from local school districts. These goods and services are not valued in the financial statements.

The Charter School received contributed legal and recruitment services which were valued at \$1,000 and \$35,345 for the years ended June 30, 2017 and 2016, respectively.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Line of Credit

The Charter School has a line of credit with a limit of \$150,000 with an interest rate of 1.50 points above the Prime Rate. The effective rate at June 30, 2017 was 5.75%. The Charter School had no outstanding balance as of June 30, 2017 and 2016. The line of credit is personally guaranteed by the Chief Executive Officer and a board member of the Charter School.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 26, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 134,113	\$ 111,221
Computers and equipment	471,244	242,008
Vehicles	33,673	33,673
Leasehold improvements	437,819	133,523
	<u>1,076,849</u>	<u>520,425</u>
Less accumulated depreciation and amortization	312,300	175,140
	<u>\$ 764,549</u>	<u>\$ 345,285</u>

NOTE C: SCHOOL FACILITY

The Charter School leased a facility during the year ended June 30, 2016 at a rate of approximately \$14,166 per month. Rent expense incurred under this lease was approximately \$150,000 for the year ended June 30, 2016. Total approximate square footage usage for this facility was 32,000.

On January 20, 2016 the Charter School entered into a new lease at 21 Humboldt Street. The commencement date of the lease is July 1, 2016 and no rent was due prior to the commencement date. The lease agreement expires on June 30, 2026 with options to extend. The lease will have escalating payments throughout the 10 year term. Rent for this lease was approximately \$26,600 per month. Rent expense incurred under this lease agreement was approximately \$491,000 for the year ended June 30, 2017. Total approximate square footage usage for this facility is 48,800.

The future payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 460,000
2019	480,000
2020	480,000
2021	485,000
2022	531,000
Thereafter	<u>2,154,000</u>
	<u>\$ 4,590,000</u>

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE D: OPERATING LEASE

The Charter School entered into a non-cancelable lease agreement for office equipment commencing July 2016. The lease agreement expires on June 2020. Monthly lease payments are \$524 along with monthly per copy costs billed by the vendor at the end of the month. Total costs under this agreement were approximately \$26,825 for the year ended June 30, 2017.

The future payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 6,288
2019	6,288
2020	6,288
	<u>\$ 18,864</u>

NOTE E: LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Note payable to a financial institution with monthly payments of \$5,563, including interest at 4.22%. The note is payable in full April 2021. This loan is personally guaranteed by a member of the community.	\$ 235,509	\$ 290,846
Notes repaid in the current fiscal year	<u>-</u>	<u>40,000</u>
	235,509	330,846
Less: current portion	<u>57,795</u>	<u>95,377</u>
	<u>\$ 177,714</u>	<u>\$ 235,469</u>

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE E: LONG-TERM DEBT, Cont'd

The aggregate maturities of the long term debt are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 57,795
2019	60,319
2020	62,953
2021	54,442
	<u>\$ 235,509</u>

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE G: CONCENTRATIONS

At June 30, 2017 and 2016, approximately 25% and 99% of grants and other receivables are due from the federal government relating to certain grants, respectively. At June 30, 2017 and 2016, approximately 72% and 18% of grants and other receivables are due from the state government relating to per-pupil revenue, respectively.

For the years ended June 30, 2017 and 2016, approximately 82% and 74% of total operating revenue and support came from per-pupil funding provided by New York State, respectively. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located. For the years ended June 30, 2017 and 2016, approximately 9% and 11% of total operating revenue and support came from the federal government relating to certain grants, respectively. For the year ended June 30, 2016, an additional 10% of total operating revenue came from a private foundation grant.

NOTE H: RETIREMENT PLAN

The Charter School sponsors a 401(k) retirement plan (the "Plan") for its employees. The Plan allows for the Charter School to make discretionary contributions to the Plan. The Charter School contributed \$44,188 and \$35,649 to the Plan for the years ended June 30, 2017 and 2016, respectively.

VERTUS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE I: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	June 30,	
	<u>2017</u>	<u>2016</u>
E-Nable Summer Program	\$ 23,263	\$ 25,000
School Infrastructure	-	19,353
College tour	5,000	-
Fiscal 2018 general support	100,000	-
Other restrictions	<u>1,257</u>	<u>170</u>
	<u>\$ 129,520</u>	<u>\$ 44,523</u>

VERTUS CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Vertus Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Vertus Charter School, which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and changes in net assets, functional expenses and cash flows for year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control over Financial Reporting

Management of Vertus Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Vertus Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vertus Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Vertus Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vertus Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Vertus Charter School in a separate letter dated October 26, 2017.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 26, 2017