

**Board of Directors
EDSYS, Inc.**

We have audited the financial statements of EDSYS, Inc. (EDSYS) for the year ended June 30, 2019, and have issued our report thereon dated November 5, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversation with the Board of Directors Treasurer about planning matters on July 18, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 18, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In addition, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of EDSYS. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by EDSYS are described in Note 2 to the financial statements. During 2019, EDSYS adopted Accounting Standard Update (ASU) 2016-14, “*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.*” No other accounting policies were adopted, and the application of existing policies was not changed during 2019 other than those impacted by ASU 2016-14, noted above. We noted no transactions entered into by EDSYS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no sensitive estimates affecting the financial statements.

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Note 9: Retirement Benefits

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 5, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to EDSYS’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as EDSYS’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Audit Issues

As required by the Pennsylvania Department of Education, EDSYS prepares an Annual Financial Report (AFR) (PDE-2057). We issue an accountant’s compilation report on the AFR.

This communication is intended solely for the use of the Board of Directors and management of EDSYS, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maher Duessel

Pittsburgh, Pennsylvania
November 5, 2019

**Board of Directors
EDSYS, Inc.**

In planning and performing our audit of the financial statements of EDSYS, Inc. (EDSYS) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered EDSYS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EDSYS's internal control. Accordingly, we do not express an opinion on the effectiveness of EDSYS'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 EDSYS's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

During our audit, we noted certain other matters that are presented for your consideration:

ACH Vendor Approval Policy

We noted that there is no formal policy that outlines the approval process for ACH payment setup. Consideration should be given to adopting an internal policy that would outline requirements for selecting and approving automatic payments entered into the accounts payable system to ensure that appropriate vendors are approved for purchases.

Pending Accounting Standards

ASU-2016-02, "*Leases (Topic 842)*," effective for EDSYS'S financial statements for the year ending June 30, 2022. This standard will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2014-09, *“Revenue from Contracts with Customers,”* is effective for EDSYS’s financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This standard provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash,”* is effective for the financial statements for the year ending June 30, 2020. This standard requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

ASU 2018-08, *“Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,”* is effective for financial statements for the year ending June 30, 2020. This standard clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction.

Management has not yet determined the impact of this amendment on EDSYS’s financial statements.

This communication is intended solely for the information and use of the Board of Directors, management, and others within EDSYS, and is not intended to be, and should not be, used by anyone other than these specified parties.

Maher Duessel

Pittsburgh, Pennsylvania
November 5, 2019

EDSYS, Inc.
d/b/a City Charter High School

Financial Statements

Years Ended June 30, 2019 and 2018
with Independent Auditor's Report

MaherDuessel

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EDSYS, INC.

YEARS ENDED JUNE 30, 2019 AND 2018

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Independent Auditor's Report

Board of Directors EDSYS, Inc.

We have audited the accompanying financial statements of EDSYS, Inc. (EDSYS), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 EDSYS as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, EDSYS adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which amends the requirements for financial statements for nonprofit entities. Our opinion is not modified with respect to this matter.

Maher Duessel

Pittsburgh, Pennsylvania
November 5, 2019

EDSYS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,540,572	\$ 3,585,694
Cash restricted for student activities fund	48,188	52,869
Tuition receivable	802,884	178,351
Grants and other accounts receivable	14,287	82,539
Other current asset	45,588	44,974
Prepaid expenses	215,133	209,482
Total current assets	4,666,652	4,153,909
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	701,261	855,970
Total Assets	\$ 5,367,913	\$ 5,009,879
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 53,479	\$ 96,819
Amounts held for student activities fund	48,188	52,869
Other current liabilities	311,097	217,198
Total Current Liabilities	412,764	366,886
Net Assets:		
Without donor restrictions:		
Undesignated	4,038,130	3,278,037
Board-designated:		
Lease payments	214,893	324,993
Retirement contributions	-	98,993
Investment in property and equipment	701,261	855,970
Total without donor restrictions	4,954,284	4,557,993
With donor restrictions	865	85,000
Total Net Assets	4,955,149	4,642,993
Total Liabilities and Net Assets	\$ 5,367,913	\$ 5,009,879

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:						
Tuition	\$ 11,010,091	\$ -	\$ 11,010,091	\$ 9,594,316	\$ -	\$ 9,594,316
Grant revenue and reimbursements	707,326	-	707,326	685,548	-	685,548
Contributions	52,000	-	52,000	-	-	-
Cafeteria revenue	92,709	-	92,709	93,556	-	93,556
Investment income	63,203	-	63,203	40,387	-	40,387
Other	39,549	-	39,549	95,335	-	95,335
Net assets released from restriction:						
Satisfaction of donor restrictions	84,135	(84,135)	-	81,349	(81,349)	-
Total revenue and other support	12,049,013	(84,135)	11,964,878	10,590,491	(81,349)	10,509,142
Expenses:						
Program:						
Charter School	11,087,813	-	11,087,813	10,751,037	-	10,751,037
Management and general	564,909	-	564,909	632,652	-	632,652
Total expenses	11,652,722	-	11,652,722	11,383,689	-	11,383,689
Change in Net Assets	396,291	(84,135)	312,156	(793,198)	(81,349)	(874,547)
Net Assets:						
Beginning of year	4,557,993	85,000	4,642,993	5,351,191	166,349	5,517,540
End of year	<u>\$ 4,954,284</u>	<u>\$ 865</u>	<u>\$ 4,955,149</u>	<u>\$ 4,557,993</u>	<u>\$ 85,000</u>	<u>\$ 4,642,993</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program	Management and General	Total
Salaries and employee benefits	\$ 7,717,192	\$ 191,314	\$ 7,908,506
Accounting services	-	37,070	37,070
Banking fees	-	48	48
Other professional services	641,462	99,181	740,643
Curriculum materials	44,987	-	44,987
Dues and fees	2,919	239	3,158
Depreciation expense	253,839	28,204	282,043
Occupancy	1,438,229	159,803	1,598,032
Legal services	-	30,957	30,957
Office supplies and miscellaneous equipment	456,341	3,508	459,849
Scholarships	53,450	-	53,450
Travel	27,243	3,081	30,324
Student transportation	285,044	-	285,044
Printing and binding	12,143	-	12,143
Advertising	51,429	-	51,429
Information technology	103,535	11,504	115,039
Total expenses	<u>\$ 11,087,813</u>	<u>\$ 564,909</u>	<u>\$ 11,652,722</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program	Management and General	Total
Salaries and employee benefits	\$ 7,590,514	\$ 185,095	\$ 7,775,609
Accounting services	-	58,091	58,091
Banking fees	-	99	99
Other professional services	522,531	106,626	629,157
Curriculum materials	57,489	-	57,489
Dues and fees	944	1,500	2,444
Depreciation expense	259,131	28,792	287,923
Occupancy	1,413,554	157,062	1,570,616
Legal services	-	76,959	76,959
Office supplies and miscellaneous equipment	462,192	1,022	463,214
Scholarships	40,500	-	40,500
Travel	37,494	3,334	40,828
Student transportation	198,593	-	198,593
Printing and binding	4,847	-	4,847
Advertising	59,195	2,507	61,702
Information technology	104,053	11,565	115,618
Total expenses	<u>\$ 10,751,037</u>	<u>\$ 632,652</u>	<u>\$ 11,383,689</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ 312,156	\$ (874,547)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	282,043	287,923
Change in:		
Tuition receivable	(624,533)	295,591
Grants and other accounts receivable	68,252	191,121
Other current asset	(614)	391
Prepaid expenses	(5,651)	(153,612)
Accounts payable	(43,340)	60,252
Other current liabilities	93,899	(2,432)
Net cash provided by (used in) operating activities	82,212	(195,313)
Cash Flows From Investing Activities:		
Payments for property and equipment	(127,334)	(410,672)
Increase (Decrease) in Cash and Cash Equivalents	(45,122)	(605,985)
Cash and Cash Equivalents:		
Beginning of year	3,585,694	4,191,679
End of year	\$ 3,540,572	\$ 3,585,694

See accompanying notes to financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

1. Organization

EDSYS, Inc. (EDSYS) is a non-profit organization created to establish a technologically oriented charter high school in western Pennsylvania. The mission of EDSYS, a technology infused public school, is to graduate students who are academically, technologically, personally, and socially prepared to succeed in post-secondary education or training. Using a team approach, EDSYS cultivates a safe, supportive, and academically rigorous environment by recognizing and nurturing individual talents, needs, and skills.

EDSYS began operations in January 2001. The technological charter school opened in September 2002. The original charter expired June 30, 2007. As of July 1, 2017, the charter has been extended through June 30, 2022.

In June 2002, EDSYS received approval from the Pennsylvania Department of State Corporation Bureau to operate and conduct business under the name 'City Charter High School'.

2. Summary of Significant Accounting Policies

The accounting policies of EDSYS conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. The following is a summary of the more significant policies:

Financial Statement Presentation

EDSYS is required to report information regarding its financial position and activities according to classes of net assets: net assets without donor restrictions and net assets with donor restrictions. EDSYS is also required to present a statement of cash flows.

The net assets of EDSYS are reported in two net asset classes as follows:

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations. At times, the Board of Directors (Board) may designate a portion of the net assets without donor restrictions to be used for certain projects. As of June 30, 2019 and 2018, the Board designated \$214,893 and \$423,986, respectively, to be used for lease payments and retirement contributions.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Board-designated funds consist of funds set aside to cover incremental monthly lease payments as required under the lease terms (as described in Note 8). These amounts could be made available for general operating purposes by Board approval if necessary.

With donor restrictions – Net assets whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of EDSYS pursuant to those stipulations.

Basis of Accounting

The accrual basis of accounting is followed by EDSYS as applicable to not-for-profit organizations. Accordingly, revenues and support are recognized when earned and expenses are recognized when the liabilities are incurred.

Contributions and Gifts

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions support depending on the existence and/or nature of any donor restrictions.

Contributions, gifts, and unconditional promises to give cash and other assets to EDSYS are reported at fair value at the date notified. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is physically received. The gifts are reported as either net assets without donor restrictions or net assets with donor restrictions 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 time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

The allocation of functional expenses approximates program usage. Specific identification with a particular function is the major basis for allocation. Immaterial amounts of fundraising expenses are included in management and general expense.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Income Taxes

EDSYS is recognized by the Internal Revenue Service as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, EDSYS qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii) and has been classified as an organization other than a private foundation.

Further, the EDSYS annually files a Form 990.

Cash and Cash Equivalents

Cash and cash equivalents include all short-term highly liquid investments with maturities from the date of purchase of three months or less.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Liquidity and Availability

EDSYS manages its liquid resources by focusing on timely billing and collection of tuition, as well as various fundraising efforts, to ensure the entity has adequate funds to cover the educational services and programs that are being conducted. EDSYS prepares very detailed budgets and has been very active in fiscal management to ensure the entity remains liquid.

As part of the liquidity management plan, EDSYS invests its cash in excess of daily requirements in short-term investments and certificates of deposit. EDSYS manages its cash, short-term investments, and certificates of deposit to ensure that sufficient cash is available to cover operating expenditures and liabilities as they come due.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	2019	2018
Financial assets, at year-end	\$ 4,403,331	\$ 3,899,453
Less: those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	(865)	(85,000)
Board designated - lease payments	(214,893)	(324,993)
Board designated - PSERS contributions	-	(98,993)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,187,573</u>	<u>\$ 3,390,467</u>

Tuition Revenue – School Districts

Tuition revenue represents the tuition paid by various Allegheny County School Districts for the students enrolled in the City Charter High School who reside within that particular school district. This revenue is earned and recognized during the applicable school year. EDSYS has elected not to set up an allowance for doubtful accounts as the entire balance is deemed collectible either through collection from school districts or submitting bills to the Commonwealth of Pennsylvania for school districts that choose not to pay. The Commonwealth of Pennsylvania will withhold state aid payments from the school districts in order to pay EDSYS.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Property and equipment of \$5,000 or more are capitalized. Depreciation is computed over the estimated useful lives of four to ten years of the assets using the straight-line method. Depreciation expense was \$282,043 for the year ended June 30, 2019 and \$287,923 for the year ended June 30, 2018.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Use of Estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Unused sick or vacation days do not carry over each year and are not reimbursed if they are unused. However, EDSYS provides a perfect attendance bonus incentive of \$2,000. This bonus is reduced by \$200 for each absence up to ten days. At June 30, 2019 and 2018, the amount accrued for attendance incentives was \$111,800 and \$99,000, respectively, and is included in other current liabilities in the statements of financial position.

Adopted Accounting Standard

ASU No. 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flows, and liquidity. As a result of adopting this standard, beginning net assets that were previously reported as unrestricted have been reflected as net assets without donor restrictions and beginning net assets that were previously reported as temporarily restricted have been reflected as net assets with donor restriction.

Pending Accounting Standards

The Financial Accounting Standards Board (FASB) has issued amendments to the FASB Accounting Standards Codification that will become effective in future years, including ASU 2014-09, amended by 2015-14 (*Revenue from Contracts with Customers [Topic 606]*), 2016-02 (*Leases [Topic 842]*), 2016-18 (*Statement of Cash Flows [Topic 320]*), and 2018-08 (*Not-For-Profit Entities [Topic 958]: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*) Management has not yet determined the impact of these amendments on the Organization’s financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. Cash and Cash Equivalents

At June 30, 2019, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$3,588,760 (including \$48,188 of cash restricted for the student activities fund) and the related bank balances totaled \$3,719,424. All of the bank balance was covered by federal depository insurance.

At June 30, 2018, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$3,638,563 (including \$52,869 of cash restricted for the student activities fund) and the related bank balances totaled \$3,827,003. All of the bank balance was covered by federal depository insurance.

4. Grants and Other Accounts Receivable

During the fiscal year ended June 30, 2012, EDSYS recognized a contribution of \$280,000 to be used for post-high school education scholarships. EDSYS received \$40,000 annually from fiscal year 2012 to 2018 to be used for that year's graduating class. The final annual installment was received during 2018.

Grants and other accounts receivable consist of the following at June 30:

	2019	2018
Contributions receivable - foundation	\$ -	35,000
Contributions receivable - state grants	14,287	13,956
Other	-	33,583
	<u>\$ 14,287</u>	<u>\$ 82,539</u>

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

5. Property and Equipment

Property and equipment at June 30, 2019 consist of the following:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
Depreciable assets:				
Leasehold improvements	\$ 713,251	\$ -	\$ -	\$ 713,251
Furniture and fixtures	1,056,064	6,518	-	1,062,582
Office equipment	2,101	-	-	2,101
Kitchen equipment	221,996	-	-	221,996
Computer equipment	801,519	120,816	(150,771)	771,564
Total depreciable assets	<u>2,794,931</u>	<u>127,334</u>	<u>(150,771)</u>	<u>2,771,494</u>
Less: accumulated depreciation	<u>(1,938,961)</u>	<u>(282,043)</u>	<u>150,771</u>	<u>(2,070,233)</u>
Net property and equipment	<u>\$ 855,970</u>	<u>\$ (154,709)</u>	<u>\$ -</u>	<u>\$ 701,261</u>

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Property and equipment at June 30, 2018 consist of the following:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Non-depreciable assets:				
Construction-in-progress	\$ 4,093	\$ 195,718	\$ (199,811)	\$ -
Depreciable assets:				
Leasehold improvements	513,440	199,811	-	713,251
Furniture and fixtures	986,964	69,100	-	1,056,064
Office equipment	2,101	-	-	2,101
Kitchen equipment	221,996	-	-	221,996
Computer equipment	835,996	145,854	(180,331)	801,519
Total depreciable assets	2,560,497	414,765	(180,331)	2,794,931
Less: accumulated depreciation	(1,831,369)	(287,923)	180,331	(1,938,961)
Net property and equipment	\$ 733,221	\$ 322,560	\$ (199,811)	\$ 855,970

6. Economic Dependency

The operation of EDSYS is dependent upon the demographics and financial viability of the participating school districts and continuing provisions under Pennsylvania School Law governing charter schools. In addition, approximately 78% of students enrolled are from the City of Pittsburgh and, therefore, are economically dependent on tuition from Pittsburgh Public Schools.

Significant changes in EDSYS operations as a result of these factors are not anticipated as of the Independent Auditor's Report date.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2019	2018
Post high school education scholarships	\$ 500	\$ 50,000
Outdoor/recreation activities	365	35,000
	<u>\$ 865</u>	<u>\$ 85,000</u>

Net assets were released from donor restrictions during the years ended June 30, 2019 and 2018, in the amount of \$84,135 and \$81,349, respectively, by incurring expenses satisfying the restricted purposes.

8. Operating Lease

On August 31, 2011, EDSYS entered into a new operating lease to rent a facility to operate the charter school. The initial term of the lease is for ten years and eight months commencing in January 2012 and ending in August 2022. On July 7, 2017, the lease was amended extending the lease through August 2027. Rent is to be paid monthly.

Future minimum rental payments due under the term of the lease are as follows:

Years Ending June 30,	Total
2020	\$ 1,391,667
2021	1,400,000
2022	1,400,000
2023	1,462,500
2024	1,475,000
Thereafter	<u>4,733,333</u>
	<u>\$ 11,862,500</u>

Lease expense for fiscal years 2019 and 2018 was \$1,427,559 and \$1,374,067, respectively.

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9. Retirement Benefits

Plan Description

Most employees of EDSYS participate in the Public School Employees' Retirement System (PSERS), a governmental cost-sharing, multi-employer defined benefit pension plan (Pension Plan) and a governmental cost-sharing, multi-employer defined benefit Health Insurance Premium Assistance Program (Premium Assistance), an OPEB plan, to public school employees of the Commonwealth of Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Employees eligible for PSERS benefits include all full-time public-school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

Retirees can participate in the Premium Assistance if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the PSERS Health Options Program or an employer-sponsored health insurance program.

Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

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Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Benefits Provided – Premium Assistance

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their eligible out-of-pocket monthly health insurance premium. As of June 30, 2019 and 2018, there were no assumed future benefit increases to participating eligible retirees.

Member Contributions

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

- Active members who joined PSERS prior to July 22, 1983:
 - Membership Class T-C 5.25%
 - Membership Class T-D 6.50%
- Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:
 - Membership Class T-C 6.25%
 - Membership Class T-D 7.50%
- Members who joined PSERS after June 30, 2001, and before July 1, 2011:
 - Membership Class T-D 7.50%

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NOTES TO FINANCIAL STATEMENTS

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- Members who joined PSERS after June 30, 2011:
 - Membership Class T-E* 7.50%
 - Membership Class T-F** 10.30%
- * Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.
- ** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Effective with Act 5, which was enacted on June 12, 2017, vested Class T-E and Class T-F members can now withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

Employer Contributions

EDSYS's contractually required PSERS contribution rate for the fiscal year ended June 30, 2019 was 33.43% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. This rate is composed of a 32.60% rate for the pension plan and a 0.83% rate for the Premium Assistance.

The combined rate for the fiscal year ended June 30, 2019 was an increase from the fiscal year ended June 30, 2018 combined rate of 32.57%. The combined contribution rate will increase to 34.29% in fiscal year 2020 and is projected to grow to 36.30% by fiscal year 2024.

For fiscal year 2019, EDSYS contributions (including Premium Assistance) approximated \$1,527,000, which were equal to its required contributions including estimates for accruals for that year. These contributions represent less than 5% of the total contributions made to the plan.

As of the June 30, 2018 actuarial valuation, the PSERS pension plan has an actuarial value of assets of approximately \$56.3 billion, present value of future pension benefits of approximately \$104 billion, and a funded ratio of 54.0%. EDSYS's portion of the net pension liability was \$16.4 million as of June 30, 2018.

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NOTES TO FINANCIAL STATEMENTS

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As of the June 30, 2018 actuarial valuation, the PSERS Premium Assistance plan has an actuarial value of assets of approximately \$2.1 billion, present value of future pension benefits of approximately \$123,000 billion, and a funded ratio of 5.56%. EDSYS's portion of the net OPEB liability was \$711,000 as of June 30, 2018.

The PSERS plan through EDSYS is closed to new employees not previously enrolled that are hired as of July 1, 2017.

401(k) Plan

EDSYS offers a 401(k) plan to employees as an alternative to PSERS. All employees hired after July 1, 2017 will only be eligible to enroll in the 401(k) plan. All employees become eligible to participate as of the individual's hire date. They will be 20 % vested after two years of service, 40% after three years, 60% after four years, 80% after five years, and 100% vested after 6 years of employment. EDSYS makes matching contributions of up to 7% of eligible compensation and a non-elective contribution of 5%. Contributions to the plan for the years ended June 30, 2019 and 2018 were \$77,520 and \$33,041, respectively.