

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, 2017 and 2016, 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, 2017 and 2016, 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.

Maher Duessel

Pittsburgh, Pennsylvania
November 9, 2017

EDSYS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,191,679	\$ 3,919,393
Cash restricted for student activities fund	58,730	64,459
Tuition receivable	473,942	470,221
Grants and other accounts receivable	273,660	111,626
Other current asset	45,365	45,888
Prepaid expenses	55,870	74,266
Total current assets	5,099,246	4,685,853
Noncurrent assets:		
Grants receivable	-	40,000
Fixed assets, net of accumulated depreciation	733,221	862,897
Total noncurrent assets	733,221	902,897
Total Assets	\$ 5,832,467	\$ 5,588,750
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 36,567	\$ 55,620
Amounts held for student activities fund	58,730	64,459
Deferred revenue	-	2,497
Other current liabilities	219,630	206,187
Total Current Liabilities	314,927	328,763
Net Assets:		
Unrestricted:		
Unrestricted - undesignated	3,329,817	2,175,860
Unrestricted - board-designated:		
Lease payments	441,660	491,660
Retirement contributions	846,493	1,565,070
Investment in fixed assets	733,221	862,897
Total unrestricted	5,351,191	5,095,487
Temporarily restricted	166,349	164,500
Total Net Assets	5,517,540	5,259,987
Total Liabilities and Net Assets	\$ 5,832,467	\$ 5,588,750

See accompanying notes to financial statements.

YEARS ENDED JUNE 30, 2017 AND 2016

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and employee benefits	\$ 7,251,178	\$ 188,197	\$ 7,439,375
Accounting services	-	53,078	53,078
Banking fees	-	306	306
Other professional services	515,931	79,735	595,666
Curriculum materials	50,010	-	50,010
Dues and fees	1,634	1,250	2,884
Depreciation expense	272,861	30,318	303,179
Occupancy	1,418,725	157,636	1,576,361
Legal services	-	28,284	28,284
Office supplies and miscellaneous equipment	484,379	216	484,595
Scholarships	35,350	-	35,350
Travel	175,607	903	176,510
Printing and binding	5,058	-	5,058
Advertising	1,547	-	1,547
Bad debt expense	8,056	-	8,056
Information technology	129,775	14,419	144,194
Total expenses	<u>\$ 10,350,111</u>	<u>\$ 554,342</u>	<u>\$ 10,904,453</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program	Management and General	Total
Salaries and employee benefits	\$ 7,088,615	\$ 183,121	\$ 7,271,736
Accounting services	-	57,356	57,356
Banking fees	-	539	539
Other professional services	575,080	69,934	645,014
Curriculum materials	46,187	-	46,187
Dues and fees	1,640	84	1,724
Depreciation expense	303,554	33,728	337,282
Occupancy	1,370,085	152,232	1,522,317
Legal services	-	11,756	11,756
Office supplies and miscellaneous equipment	478,991	322	479,313
Scholarships	37,150	-	37,150
Travel	180,493	800	181,293
Printing and binding	19,662	138	19,800
Advertising	383	-	383
Bad debt expense	-	-	-
Information technology	108,574	12,064	120,638
Total expenses	<u>\$ 10,210,414</u>	<u>\$ 522,074</u>	<u>\$ 10,732,488</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 257,553	\$ (85,066)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	303,179	337,282
Change in:		
Tuition receivable	(3,721)	(318,705)
Grants and other accounts receivable	(122,034)	65,273
Other current asset	523	(11,428)
Prepaid expenses	18,396	1,680
Accounts payable	(19,053)	32,220
Deferred revenue	(2,497)	2,497
Other current liabilities	13,443	(13,579)
Net cash provided by (used in) operating activities	445,789	10,174
Cash Flows From Investing Activities:		
Fixed asset purchases	(173,503)	(171,593)
Increase (Decrease) in Cash and Cash Equivalents	272,286	(161,419)
Cash and Cash Equivalents:		
Beginning of year	3,919,393	4,080,812
End of year	<u>\$ 4,191,679</u>	<u>\$ 3,919,393</u>

See accompanying notes to financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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

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: unrestricted, temporarily restricted, and permanently restricted. 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:

Unrestricted - Used to accumulate all unrestricted and board designated resources from operations. It represents the portion of the net assets of EDSYS that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted - It represents the portion of the net assets of EDSYS resulting (a) from contributions and other inflows of assets whose use by EDSYS is limited by donor-imposed stipulations that can be fulfilled and removed by actions of EDSYS pursuant to

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

those stipulations and (b) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, and their fulfillment and removal by action of EDSYS pursuant to those stipulations. When donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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 unrestricted, temporarily restricted, or permanently restricted 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 temporarily or permanently 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 time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets 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.

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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

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.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Fixed assets 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 \$303,179 for the year ended June 30, 2017 and \$337,282 for the year ended June 30, 2016.

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, 2017 and 2016, the

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

amount accrued for attendance incentives was \$104,100 and \$98,900, respectively, and is included in other current liabilities in the statements of financial position.

Pending Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued statements that will become effective in future years as outlined below. Management has not yet determined the impact of these statements on the financial statements.

ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* is effective for the financial statements for the year ending June 30, 2019. This amendment 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 flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* is effective for the financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, *“Leases (Topic 842),”* is effective for the financial statements for the year ending June 30, 2021. This amendment 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 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash,”* is effective for the financial statements for the year ending June 30, 2020. This amendment 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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$4,250,409 (including \$58,730 of cash restricted for the student activities fund) and the related bank balances totaled \$4,348,476. All of the bank balance was covered by federal depository insurance.

At June 30, 2016, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$3,983,852 (including \$64,459 of cash restricted for the student activities fund) and the related bank balances totaled \$3,988,723. All of the bank balance was covered by federal depository insurance.

4. Grants and Other Receivables

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 will receive \$40,000 annually for seven years to be used for that year's graduating class.

Total contribution	\$ 280,000
Less amount received through June 30, 2017	<u>240,000</u>
Contribution receivable at June 30, 2017	<u>\$ 40,000</u>
Amounts receivable in less than 1 year	<u>\$ 40,000</u>

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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

	2017	2016
Contributions receivable - scholarships	\$ 40,000	\$ 80,000
Contributions receivable - foundation	70,000	41,000
Contributions receivable - state grants	151,136	-
Other	12,524	30,626
	<u>\$ 273,660</u>	<u>\$ 151,626</u>

5. Fixed Assets

Fixed assets at June 30, 2017 consist of the following:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Non-depreciable assets:				
Construction-in-progress	\$ -	\$ 4,093	\$ -	\$ 4,093
Depreciable assets:				
Leasehold improvements	513,440	-	-	513,440
Furniture and fixtures	952,574	34,390	-	986,964
Office equipment	2,101	-	-	2,101
Kitchen equipment	221,996	-	-	221,996
Computer equipment	881,308	135,020	(180,332)	835,996
Total depreciable assets	<u>2,571,419</u>	<u>169,410</u>	<u>(180,332)</u>	<u>2,560,497</u>
Less: accumulated depreciation	<u>(1,708,522)</u>	<u>(303,179)</u>	<u>180,332</u>	<u>(1,831,369)</u>
Net fixed assets	<u>\$ 862,897</u>	<u>\$ (129,676)</u>	<u>\$ -</u>	<u>\$ 733,221</u>

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Fixed assets at June 30, 2016 consist of the following:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Non-depreciable assets:				
Construction-in-progress	\$ -	\$ -	\$ -	\$ -
Depreciable assets:				
Leasehold improvements	513,440	-	-	513,440
Furniture and fixtures	917,374	35,200	-	952,574
Office equipment	2,101	-	-	2,101
Kitchen equipment	221,996	-	-	221,996
Computer equipment	934,605	136,393	(189,690)	881,308
Total depreciable assets	2,589,516	171,593	(189,690)	2,571,419
Less: accumulated depreciation	(1,560,930)	(337,282)	189,690	(1,708,522)
Net fixed assets	\$ 1,028,586	\$ (165,689)	\$ -	\$ 862,897

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 85% of students enrolled are from the City of Pittsburgh and, therefore, are the financial responsibility of 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, 2017 AND 2016

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Post high school education scholarships	\$ 89,500	\$ 123,500
Outdoor/recreation activities	71,164	32,500
Transportation, clothing, and medical expenses for students in need	5,685	8,500
	<u>\$ 166,349</u>	<u>\$ 164,500</u>

Net assets were released from donor restriction during the years ended June 30, 2017 and 2016, in the amount of \$68,151 and \$69,000, 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
2018	\$ 1,362,500
2019	1,391,667
2020	1,400,000
2021	1,400,000
2022	1,400,000
Thereafter	<u>7,670,833</u>
	<u>\$ 14,625,000</u>

Lease expense for fiscal years 2017 and 2016 was \$1,302,400 and \$1,282,000, respectively.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

9. Retirement Benefits

Plan Description

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate 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. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 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.

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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

Contributions

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%
----------------------	-------

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%.

Employer Contributions:

EDSYS's contractually required pension contribution rates for fiscal years ended June 30, 2017 and 2016 was 29.20%, and 25.00%, respectively, of covered payroll, actuarially

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

In addition, for fiscal years ended June 30, 2017 and 2016, EDSYS was required to contribute 0.83% and .84%, respectively, of covered payroll to the Premium Assistance.

The combined contribution rate will increase to 32.57% in fiscal year 2018 and is projected to grow to 36.40% by fiscal year 2022.

During fiscal years 2017 and 2016, EDSYS contributed approximately \$1,440,000 and \$1,300,000, respectively, towards pension benefits which were recognized by PSERS. These contributions represented less than 1% of the total contributions made to the plan.

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses School Districts a portion of contributions made to PSERS. Currently, the Commonwealth of Pennsylvania is no longer reimbursing EDSYS a portion of the employer contributions made to PSERS.

As of June 30, 2016, the pension plan has a total pension liability of \$99,388,887,000; plan fiduciary net position of \$(49,832,060,000), employer net pension liability of \$49,556,827,000, and a 50.14% plan fiduciary net position as percentage of total pension liability. For fiscal years ended June 30, 2017 and 2016 (June 30, 2016 and 2015 measurement periods, respectively), EDSYS's share of the net pension liability is \$18,485,000 and \$15,680,000, respectively.