

City CHS

Charter Annual Report

07/01/2013 - 06/30/2014

School Profile

Demographics

201 Stanwix Street
Suite 100
Pittsburgh, PA 15222
(412)690-2489

Phase:	Phase 3
CEO Name:	Ron Sofo
CEO E-mail address:	sofo@cityhigh.org

Governance and Staff

Leadership Changes

Leadership changes during the past year on the Board of Trustees and in the school administration:

Leadership Changes

There were two new persons who were appointed to the Board of Directors due to the resignations of Board members Judith Hallinen and Derek Lopez and the continuation of Karen White, formerly the parent Representative on the Board, to a regular board member.

Ms. White was appointed to one of the vacated seats in February 2014. Dr. Stefan Biancaniello, a new member of the Board was appointed in April 2014 to the second vacated seat due to resignation. Mrs. Melissa Jackson-Dunbar was appointed as the Board's 1 year parent representative seat in April 2014.

The Board President and Vice President positions remained unchanged for the 2013-2014 fiscal year.

Board of Trustees Meeting Schedule

Location	Date and Time
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	7/16/2014 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	9/17/2014 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	10/15/2014 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	11/19/2014 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	1/21/2015 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	2/18/2015 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	3/18/2015 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	5/20/2015 6:00 PM
City Charter High School, 201 Stanwix Street, Pittsburgh, PA 15222	6/17/2015 6:00 PM

Professional Staff Member Roster

There are no professional staff members.

The professional staff member roster as recorded originally on the PDE-414 form

XLSX file uploaded.

Quality of Teaching and Other Staff

Position Categories	All Employed per Category	Appropriately Certified	Promoted	Transferred	Terminated	Contracted for Following Year
Chief Academic Officer/Director	0.00					
Principal	1.00	1.00				1.00
Assistant Principal	4.00	4.00				3.00
Classroom Teacher (including Master Teachers)	41.00	40.00				41.00
Specialty Teacher (including Master Teachers)	0.00					
Special Education Teacher (including Master Teachers)	7.00	7.00				7.00
Special Education Coordinator	0.00					
Counselor	2.00	1.00				2.00
Psychologist	0.00					
School Nurse	1.00	1.00				1.00
Transition Manager	4	4				4
Totals	60.00	58.00	0	0	0	59.00

Further explanation:

One of our counselors does not have PA state certification as a school counselor. However, this staff member has a Masters of Education in Rehabilitation Counseling from the University of Pittsburgh with years effective experience with a wide range of social and human service agencies serving youth, adults and families prior to being hired at City Charter High School. One of our teachers does not have a PA state certification. However this staff member has a Bachelors of Arts with the class work in the subject areas of education. This staff member is teaching Career classes which he also has the educational course work in that area.

Fiscal Matters

Major Fundraising Activities

Major fundraising activities performed this year and planned for next year:

Major Fundraising Activities

The only direct external fund raising activity this year was focused on raising \$20,000.00 to pay for travel related expenses to send our nation SAGE student entrepreneurial business Team of 6 students and 2 adult chaperones to the international competition schedules to occur in Moscow, Russia August 7 through August 12, 2014. The school was successful in raising \$21,000.00 for this purpose.

CCHS used \$35,000.00 of a two year \$65,000.00 grant from the RK Mellon Foundation for its "Young Eco Stewards" Initiative which supports our 10th grade environmental science units and a number of community based, outdoor learning experiences related to environmental stewardship, volunteerism, leadership and team building. This grant is for the 2013-2014 and 2014-2015 school years.

Also the school did use a \$50,000.00 Leadership Succession grant from the Heinz Endowments to assist in the succession process for the retirement of the school's second co-founder at the end of the 2013-2014 school year.

Fiscal Solvency Policies

Changes to policies and procedures to ensure and monitor fiscal solvency:

The Board of Directors at the June 2014 regular meeting voted to Board commit portions of its unassigned fund balance to anticipated rising costs for employer retirement contributions in the amount of \$2,100,000.00 and \$550,000.00 for anticipated increases in building lease payments for the next 5 years.

Fiscal Solvency Policies

Charter School documents that describe policies and procedures that have been established to ensure and monitor fiscal solvency (optional if described in the narrative)

No files have been uploaded.

Accounting System

Changes to the accounting system the charter school uses:

CCHS maintains its financial records on the accrual basis of accounting, and follows generally accepted accounting principles in the United States, as applicable to not-for-profit organizations. Specifically, the school maintains its financial records using Quickbooks Version 2013 accounting

software.

There have been no changes to CCHS accounting system in fiscal 13/14.

Preliminary Statements of Revenues, Expenditures & Fund Balances

The completed and CEO signed Fiscal Template – Preliminary Statements of Revenues, Expenditures & Fund Balances

XLSX file uploaded.

Financial Audits

Basics

Audit Firm: Maher Duessel Certified Public Accountants, Pittsburgh, Pennsylvania

Date of Last Audit: 10/25/2013

Fiscal Year Last Audited: 2012-13

Explanation of the Report

Detailed explanation of the report (if the previous year's report has been submitted.) Any audit report for a school year that precedes this annual report by more than 2 years is not acceptable and may be considered a material violation:

The previous year's report has been submitted as the audit of the fiscal year ended June 30, 2014 is currently in process and will not be completed until October 2014.

Financial Audit Report

The Financial Audit Report, which should include the auditor's opinion and any findings resulting from the audit

PDF file uploaded.

Citations

Financial audit citations and the corresponding Charter School responses

Description	Response
-------------	----------

Federal Programs Consolidated Review

Basics

Title I Status: Yes

Date of Last Federal
Programs Consolidated Review: 05/25/2011
School Year Reviewed: 2010-11

Federal Programs Consolidated Review Report

The Federal Programs Consolidated Review Report, which should include the Division's opinion and any findings resulting from the audit

PDF file uploaded.

Citations

Federal Programs Consolidated Review citations and the corresponding Charter School responses

Description	Response
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Special Education

Chapter 711 Assurances

The LEA agrees to comply with all requirements of Special Education outlined in 22 PA Code Chapter 711 and other state and federal mandates. These include:

Implementation of a full range of services, programs and alternative placements available to the Charter School for placement and implementation of the special education programs in the Charter School.

Implementation of a child find system to locate, identify and evaluate young children and children who are thought to be a child with a disability eligible for special education residing within the Charter School's jurisdiction. Child find data is collected, maintained and used in decision-making. Child find process and procedures are evaluated for their effectiveness. The Charter School implements mechanisms to disseminate child find information to the public, organizations, agencies and individuals on at least an annual basis.

Assurances of students with disabilities are included in general education programs and extracurricular and non-academic programs and activities to the maximum extent appropriate in accordance with an Individualized Education Program.

Following the state and federal guidelines for participation of students with disabilities in state and Charter School-wide assessments including the determination of participation, the need for accommodations and the methods of assessing students for whom regular assessment is not appropriate.

Assurance of funds received through participation in the medical assistance reimbursement program, ACCESS, will be used to enhance or expand the current level of services and programs provided to students with disabilities in this local education agency.

Special Education Support Services

Support Service	Location	Teacher FTE
Special Education Teacher (Anthony Ovia)	City Charter High School	1
Special Education Teacher (Beth Baranowski)	City Charter High School	1
Special Education Teacher (Brent Henry)	City Charter High School	1
Special Education Teacher (Brittney Feicht)	City Charter High School	1
Special Education Teacher (Donna Schwartz)	City Charter High School	1
Special Education Teacher (John Zappa)	City Charter High School	1
Special Education Teacher (Josh Hanna)	City Charter High School	1

Special Education Teacher Associate (Alex Wood)	City Charter High School	1
Special Education Teacher Associate (Katie Seidler)	City Charter High School	1
Special Education Teaching Associate (Erica Vasquez)	City Charter High School	1
Special Education Teaching Associate (Stephanie Feth)	City Charter High School	1

Special Education Contracted Services

Title	Amt. of Time per Week	Operator	Number of Students
School Psychologist	1 Days	Outside Contractor	10 or fewer
Speech and Language Therapist	0.5 Days	Outside Contractor	10 or fewer

Special Education Cyclical Monitoring

Date of Last Special Education Cyclical Monitoring:
Link to Report (Optional):

02/09/2011
Not Provided

Special Education Cyclical Monitoring Report

The Special Education Cyclical Monitoring Report, which should include the Bureau's findings
PDF file uploaded.

Facilities

Fixed assets acquired by the Charter School during the past fiscal year

Fixed assets acquired by the Charter School during the past fiscal year:

During fiscal 13/14, CCHS upgraded auditorium lighting, performed leasehold improvements to first and fourth floors of the school, installed new cable, ethernet switches and other network upgrades, acquired furniture and fixtures for classrooms, a new industrial grade kettle for the cafeteria, and laptop computers for the incoming 9th grade students.

The total Charter School expenditures for fixed assets during the identified fiscal year:

\$392,683.00

Facility Plans and Other Capital Needs

The Charter School's plan for future facility development and the rationale for the various components of the plan:

Facility Plans and other Capital Needs

The school did have the PA State Police conduct a facility risk assessment in the fall of 2013. The report recommended strengthening our main school entrance to create a holding zone where potential hostile individuals could be safely isolated and denied entrance into the school with ballistic safety features. Given that we are a school located in downtown Pittsburgh, PA serving a diverse student population, the school is installing a ballistic rated set of doors and glass partitions to create this holding zone.

We are also renovating existing space to accommodate a larger number of students reaching the senior year and model which requires the expansion of our quiet study rooms.

With regards to capital needs, the school intends to explore fund raising as well as the state's subsidy formula for the payment of charter school lease cost. It is apparent that charter schools located in urban settings are not being reimbursed for lease expenses commensurate with what their chartering school districts are eligible to receive through the Plan Con process.

Memorandums of Understanding

Organization	Purpose
Pittsburgh Police Department	To coordinate school and community safety programs and communications.
Point Park University	Dual enrollment courses for high school juniors and seniors.

Charter School Annual Report Affirmations

Charter Annual Report Affirmation

I verify that all information and records in this charter school annual report are complete and accurate.

The Chief Executive Officer and the Board of Trustee President of the charter school must sign this verification.

Affirmed by David Lehman on 7/30/2014

President, Board of Trustees

Affirmed by Ron Sofo on 7/29/2014

Chief Executive Officer

Charter School Law Affirmation

Pennsylvania's first Charter School Law was Act 22 of 1997, 24 P.S. § 17-1701-A et seq., which primarily became effective June 19, 1997, and has subsequently been amended.

The Charter School Law provides for the powers, requirements, and establishment of charter schools. The Charter School Law was passed to provide opportunities to teachers, parents, pupils and community members to establish and maintain schools that operate independently from the existing school district structure as a method to accomplish all of the following: (1) improve pupil learning; (2) increase learning opportunities for all pupils; (3) encourage the use of different and innovative teaching methods; (4) create new professional opportunities for teachers; (5) provide parents and pupils with expanded choices in types of educational opportunities that are available within the public school system; and (6) hold charter schools accountable for meeting measurable academic standards and provide the school with a method to establish accountability systems.

The charter school assures that it will comply with the requirements of the Charter School Law and any provision of law from which the charter school has not been exempted, including Federal laws and regulations governing children with disabilities. The charter school also assures that it will comply with the policies, regulations and procedures of the Pennsylvania Department of Education (Department). Additional information about charter schools is available on the Pennsylvania Department's website at: <http://www.education.state.pa.us>.

The Chief Executive Officer and Board of Trustees President of the charter school must sign this assurance.

Affirmed by David Lehman on 7/31/2014

President, Board of Trustees

Affirmed by Ron Sofo on 7/29/2014

Chief Executive Officer

Ethics Act Affirmation

Pennsylvania's current Public Official and Employee Ethics Act (Ethics Act), Act 93 of 1998, Chapter 11, 65 Pa.C.S. § 1101 et seq., became effective December 14, 1998 and has subsequently been amended.

The Ethics Act provides that public office is a public trust and that any effort to realize personal financial gain through public office other than compensation provided by law is a violation of that trust. The Ethics Act was passed to strengthen the faith and confidence of the people of Pennsylvania in their government. The Pennsylvania State Ethics Commission (Commission) administers and enforces the provisions of the Ethics Acts and provides guidance regarding its requirements.

The regulations of the Commission set forth the procedures applicable to all proceedings before the Commission as well as for the administration of the Statement of Financial Interests filing requirements. See 51 Pa. Code § 11.1 et seq.

The charter school assures that it will comply with the requirements of the Ethics Act and with the policies, regulations and procedures of the Commission. Additional information about the Ethics Act is available on the Commission's website at: <http://www.ethics.state.pa.us>.

The Chief Executive Officer and Board of Trustees President of the charter school must sign this assurance.

Affirmed by David Lehman on 7/31/2014

President, Board of Trustees

Affirmed by Ron Sofo on 7/29/2014

Chief Executive Officer

EDSYS, Inc.

Single Audit

Years Ended June 30, 2013 and 2012 with
Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
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EDSYS, INC.

YEARS ENDED JUNE 30, 2013 AND 2012

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Independent Auditor's Report

Board of Directors
EDSYS, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of EDSYS, Inc. (EDSYS), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 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 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 risk 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, 2013 and 2012, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of EDSYS'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 the 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 EDSYS's internal control over financial reporting and compliance.

Maker Duessel

Pittsburgh, Pennsylvania
October 25, 2013

EDSYS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 4,143,782	\$ 3,612,721
Cash restricted for student activities fund	26,444	38,050
Tuition receivable	272,348	501,962
Grants and other accounts receivable	272,459	345,257
Other current asset	13,840	35,186
Prepaid expenses	24,031	152,586
	<hr/>	<hr/>
Total current assets	4,752,904	4,685,762
Fixed assets, net of accumulated depreciation	1,034,123	1,277,940
	<hr/>	<hr/>
Total Assets	\$ 5,787,027	\$ 5,963,702
	<hr/>	<hr/>
Liabilities and Net Assets		
<hr/>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 148,056	\$ 68,886
Amounts held for student activities fund	26,444	38,050
Deferred revenue	12,239	22,233
Current portion of long-term debt	-	143,878
Other current liabilities	314,295	161,427
	<hr/>	<hr/>
Total current liabilities	501,034	434,474
Long-term debt	-	29,996
	<hr/>	<hr/>
Total Liabilities	501,034	464,470
	<hr/>	<hr/>
Net Assets:		
Unrestricted:		
Unrestricted; undesignated	3,961,870	4,052,459
Investment in fixed assets, net of related debt	1,034,123	1,104,066
	<hr/>	<hr/>
Total unrestricted	4,995,993	5,156,525
Temporarily restricted	290,000	342,707
	<hr/>	<hr/>
Total Net Assets	5,285,993	5,499,232
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 5,787,027	\$ 5,963,702
	<hr/>	<hr/>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:						
Tuition	\$ 8,679,340	\$ -	\$ 8,679,340	\$ 8,746,475	\$ -	\$ 8,746,475
Grant revenue and reimbursements	909,003	-	909,003	870,993	-	870,993
Contributions	3,217	50,000	53,217	50	722,100	722,150
Cafeteria revenue	98,992	-	98,992	82,739	-	82,739
Investment income	5,783	-	5,783	3,834	-	3,834
Other	50,404	-	50,404	66,203	-	66,203
Net assets released from restriction:						
Satisfaction of donor restrictions	102,707	(102,707)	-	421,908	(421,908)	-
Total revenue and other support	<u>9,849,446</u>	<u>(52,707)</u>	<u>9,796,739</u>	<u>10,192,202</u>	<u>300,192</u>	<u>10,492,394</u>
Expenses:						
Program:						
Charter School	9,471,739	-	9,471,739	8,762,901	-	8,762,901
Management and general	538,239	-	538,239	515,638	-	515,638
Total expenses	<u>10,009,978</u>	<u>-</u>	<u>10,009,978</u>	<u>9,278,539</u>	<u>-</u>	<u>9,278,539</u>
Change in Net Assets	(160,532)	(52,707)	(213,239)	913,663	300,192	1,213,855
Net Assets:						
Beginning of year	5,156,525	342,707	5,499,232	4,242,862	42,515	4,285,377
End of year	<u>\$ 4,995,993</u>	<u>\$ 290,000</u>	<u>\$ 5,285,993</u>	<u>\$ 5,156,525</u>	<u>\$ 342,707</u>	<u>\$ 5,499,232</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and employee benefits	\$ 6,244,158	\$ 197,520	\$ 6,441,678
Accounting services	-	59,726	59,726
Banking fees	-	1,565	1,565
Other professional services	358,524	42,723	401,247
Curriculum materials	66,152	-	66,152
Dues and fees	4,475	1,020	5,495
Depreciation expense	427,722	47,525	475,247
Occupancy	1,310,611	145,424	1,456,035
Legal services	-	10,723	10,723
Office supplies and miscellaneous equipment	509,070	2,422	511,492
Grants to individuals	40,000	-	40,000
Travel	234,828	1,090	235,918
Printing and binding	7,200	-	7,200
Advertising	12,489	-	12,489
Interest expense	4,150	461	4,611
Loss on disposal of fixed assets	5,386	598	5,984
Information technology	246,974	27,442	274,416
Total expenses	<u>\$ 9,471,739</u>	<u>\$ 538,239</u>	<u>\$ 10,009,978</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and employee benefits	\$ 5,627,154	\$ 143,398	\$ 5,770,552
Accounting services	-	49,643	49,643
Banking fees	-	1,639	1,639
Other professional services	357,166	71,159	428,325
Curriculum materials	38,865	-	38,865
Dues and fees	5,316	1,908	7,224
Depreciation expense	544,675	60,519	605,194
Occupancy	1,218,883	135,431	1,354,314
Legal services	-	13,028	13,028
Office supplies and miscellaneous equipment	567,070	9,355	576,425
Travel	195,772	1,898	197,670
Printing and binding	16,360	815	17,175
Advertising	8,842	6,512	15,354
Interest expense	12,053	1,339	13,392
Loss on disposal of fixed assets	-	-	-
Information technology	170,745	18,994	189,739
Total expenses	<u>\$ 8,762,901</u>	<u>\$ 515,638</u>	<u>\$ 9,278,539</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (213,239)	\$ 1,213,855
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	475,247	605,194
Loss on disposal of fixed assets	5,984	-
Change in:		
Tuition receivable	229,614	(276,472)
Grants and other accounts receivable	72,798	(208,051)
Other current asset	21,346	2,165
Prepaid expenses	128,555	(133,047)
Accounts payable	79,170	1,507
Deferred revenue	(9,994)	7,348
Other current liabilities	152,868	31,302
Net cash provided by (used in) operating activities	<u>942,349</u>	<u>1,243,801</u>
Cash Flows From Investing Activities:		
Fixed asset purchases	<u>(237,414)</u>	<u>(966,364)</u>
Cash Flows From Financing Activities:		
Repayment of borrowings	<u>(173,874)</u>	<u>(279,219)</u>
Increase (Decrease) in Cash and Cash Equivalents	531,061	(1,782)
Cash and Cash Equivalents:		
Beginning of year	<u>3,612,721</u>	<u>3,614,503</u>
End of year	<u>\$ 4,143,782</u>	<u>\$ 3,612,721</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 4,611</u>	<u>\$ 13,392</u>

See accompanying notes to financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

1. ORGANIZATION

EDSYS, Inc. (EDSYS) is a non-profit organization created to establish a technological charter 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 current charter expired June 30, 2012. As of July 1, 2012, the charter has been extended through June 30, 2017. The technological charter school opened in September 2002.

In May 2002, EDSYS registered an application for registration of a fictitious name with the Pennsylvania Department of State Corporation Bureau. As a result of the approval of this application which was received in June 2002, EDSYS operates and conducts 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 of the three self-balancing 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 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, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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 recorded when earned and expenses are recognized when the liabilities are incurred.

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) and has been classified as an organization other than a private foundation.

Further, the EDSYS annually files a Form 990. The filed Form 990 is subject to examination by the Internal Revenue Service generally for three years after it is filed.

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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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 three to 10 years of the assets using the straight-line method. Depreciation expense was \$475,247 for the year ended June 30, 2013 and \$605,194 for the year ended June 30, 2012.

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 \$500 for each absence. At June 30, 2013 and 2012, the amount accrued for attendance incentives was \$78,975 and \$82,725, respectively, and is included in other current liabilities in the statements of financial position.

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, 2013, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$4,170,226 (including \$26,444 of cash restricted for the student activities fund) and the related bank balances totaled \$4,183,044. All of the bank balance was covered by federal depository insurance.

At June 30, 2012, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$3,650,771 (including \$38,050 of cash restricted for the student activities fund) and the related bank balances totaled \$3,940,543. \$250,000 of the bank balance was covered by federal depository insurance. As required by the Commonwealth of Pennsylvania Department of Education, the remaining balance was collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the institution to pool collateral for all

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

governmental deposits and have the collateral held by an approved custodian in the institution's name.

4. GRANTS AND OTHER RECEIVABLES

During the fiscal year ended June 30, 2012, EDSYS received 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, 2013	<u>80,000</u>
Contribution receivable at June 30, 2013	<u><u>\$ 200,000</u></u>
Amounts receivable in less than 1 year	\$ 40,000
Amounts receivable in 1 to 5 years	<u>160,000</u>
Contribution receivable at June 30, 2013	<u><u>\$ 200,000</u></u>

The receivable will be collected over the next four years and have not been discounted to reflect the net present value. Based on review, it has been determined that the discounted amount is immaterial to the receivable. EDSYS believes that the entire contribution is currently collectible.

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

	<u>2013</u>	<u>2012</u>
Contributions receivable - scholarships	\$ 200,000	\$ 240,000
Contributions receivable - other	50,000	-
Lease reimbursement	-	87,750
Other	<u>22,459</u>	<u>17,507</u>
	<u><u>\$ 272,459</u></u>	<u><u>\$ 345,257</u></u>

5. FIXED ASSETS

Fixed assets at June 30, 2013 consist of the following:

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Leasehold improvements	\$ 1,213,199	\$ 40,120	\$ (1,005,572)	\$ 247,747
Furniture and fixtures	854,995	5,895	-	860,890
Office equipment	2,101	-	-	2,101
Kitchen equipment	273,371	-	(59,836)	213,535
Computer equipment	1,358,200	191,399	(391,505)	1,158,094
	<u>3,701,866</u>	<u>237,414</u>	<u>(1,456,913)</u>	<u>2,482,367</u>
Less: accumulated depreciation	<u>(2,423,926)</u>	<u>(475,247)</u>	<u>1,450,929</u>	<u>(1,448,244)</u>
Net fixed assets	<u>\$ 1,277,940</u>	<u>\$ (237,833)</u>	<u>\$ (5,984)</u>	<u>\$ 1,034,123</u>

Fixed assets at June 30, 2012 consist of the following:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Leasehold improvements	\$ 1,005,571	\$ 207,628	\$ -	\$ 1,213,199
Furniture and fixtures	590,547	264,448	-	854,995
Office equipment	2,101	-	-	2,101
Kitchen equipment	59,836	213,535	-	273,371
Computer equipment	1,533,280	280,753	(455,833)	1,358,200
	<u>3,191,335</u>	<u>966,364</u>	<u>(455,833)</u>	<u>3,701,866</u>
Less: accumulated depreciation	<u>(2,274,565)</u>	<u>(605,194)</u>	<u>455,833</u>	<u>(2,423,926)</u>
Net fixed assets	<u>\$ 916,770</u>	<u>\$ 361,170</u>	<u>\$ -</u>	<u>\$ 1,277,940</u>

Included above for June 30, 2012 is equipment of \$391,505 and related accumulated depreciation of \$277,316 that was capitalized under leasing arrangements.

Leasehold improvements related to the former location rented by EDSYS were written off subsequent to the related lease term's end of August 2012.

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 86% of students enrolled are from the City of Pittsburgh and therefore, are the financial responsibility of Pittsburgh Public Schools.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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

7. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Post high school education scholarships	\$ 240,000	\$ 280,000
Peer coach staff position	-	27,347
New science labs	-	18,659
Leadership succession	50,000	-
Outdoor/recreation activities	-	16,701
	<u>\$ 290,000</u>	<u>\$ 342,707</u>

Net assets were released from donor restriction during the years ended June 30, 2013 and 2012, in the amount of \$102,707 and \$421,908, respectively, by incurring expenses satisfying the restricted purposes.

8. LONG-TERM DEBT

EDSYS had the following long-term debt balances:

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Term loan payable in quarterly installments of \$10,659 including interest at 4% scheduled to be paid through October 2013.	\$ -	\$ 53,105
Long-term lease payable in quarterly installments of \$76,430 including interest at 4.04% scheduled to be paid through September 2013.	-	<u>120,769</u>
Total	-	173,874
Less current portion	-	<u>143,878</u>
Long-term debt	<u>\$ -</u>	<u>\$ 29,996</u>

Both the loan and lease described above were scheduled to be paid off during fiscal year ended June 30, 2014; however, EDSYS was able to pay them off early during the year ended June 30, 2013.

9. OPERATING LEASE

On August 31, 2011, EDSYS entered into a new operating lease to rent a facility to operate the charter school. The term of the lease is for ten years and eight months commencing in January 2012 and ending in August 2022. There is an optional extension term through August 2027. Rent is to be paid monthly.

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

Years Ending June 30,	<u>Total</u>
2014	\$ 1,250,000
2015	1,275,000
2016	1,275,000
2017	1,300,002
2018	1,325,000
Thereafter	<u>5,591,668</u>
	<u>\$ 12,016,670</u>

Lease expense for fiscal years 2013 and 2012 was \$1,195,905 and \$1,248,653, respectively.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

10. RETIREMENT BENEFITS

Plan Description

All employees of EDSYS participate in the Public School Employees' Retirement System (PSERS), a governmental cost sharing multi-employer 401 (a) defined benefit plan (plan). The PSERS provides retirement and disability benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Benefit provisions of the plan are established under the provisions of the Public School Employees' Retirement Code (Code) (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-9102) and may be amended by an Act of the Pennsylvania State Legislature. The PSERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the publications page of the PSERS website.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS after June 30, 2001 and before July 1, 2011 contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.

Members who joined PSERS after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

Employers must contribute at rates based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer contributions was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and .86% for healthcare insurance premium assistance. The contribution rate for school districts will increase to 16.93% for fiscal year 2014.

As of the June 30, 2012 actuarial valuation, plan has an actuarial value of assets of approximately \$58.3 billion, present value of future pension benefits of approximately \$109 billion and a funded ratio of 66.3%.

Although future years' rates have not yet been determined, it is currently projected that future rates will be the following based on the June 30, 2012 valuation:

<u>Years Ending June 30,</u>	<u>Employer Contribution Rate</u>
2015	21.31%
2016	25.80%
2017	28.30%
2018	29.15%
2019	30.14%
2020	30.87%
2021	30.78%
2022	30.76%
2023	30.93%

During fiscal years 2013 and 2012, EDSYS contributed approximately \$605,000 and \$298,000, respectively, which was equal to its required contribution for the years. These contributions represented less than 5% of the total contributions made to the plan. In accordance with Act 29, the Commonwealth of Pennsylvania reimburses a portion of contributions made to PSERS. EDSYS received approximately \$238,000 and \$140,000, respectively, in reimbursements from the Commonwealth of Pennsylvania in fiscal years 2013 and 2012.

11. SUBSEQUENT EVENTS

As of July 1, 2013, EDSYS has entered into a self-insurance plan for health insurance. EDSYS anticipates a significant cost savings over their previous health insurance provider costs.

Supplementary Information

EDSYS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>		
Passed Through the Pennsylvania Department of Education: Title I Grants to Local Educational Agencies	84.010	\$ 318,550
Improving Teacher Quality State Grants	84.367	11,770
Passed through the Pittsburgh Public Schools: Special Education - Grants to States (IDEA, Part B)	84.027	<u>96,870</u>
Total U.S. Department of Education		<u>427,190</u>
<u>U.S. Department of Agriculture:</u>		
Passed Through the Pennsylvania Department of Education: School Breakfast Program	10.553	14,040
National School Lunch Program	10.555	<u>144,787</u>
Total Child Nutrition Cluster		<u>158,827</u>
Total Expenditures of Federal Awards		<u>\$ 586,017</u>

See accompanying note to schedule of expenditures of federal awards.

EDSYS, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of EDSYS, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *“Audits of States, Local Governments, and Non-Profit Organizations.”*

EDSYS, Inc.

Independent Auditor's Reports in
Accordance with OMB Circular A-133

Year Ended June 30, 2013

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 Directors
EDSYS, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of EDSYS, Inc. (EDSYS), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered EDSYS'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 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. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EDSYS'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*.

Board of Directors
EDSYS, Inc.
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Pittsburgh, Pennsylvania
October 25, 2013

Independent Auditor's Report on Compliance for its Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
EDSYS, Inc.

Report on Compliance for its Major Federal Program

We have audited EDSYS, Inc.'s (EDSYS) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on EDSYS's major federal program for the year ended June 30, 2013. EDSYS's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for EDSYS's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about EDSYS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of EDSYS's compliance.

Opinion on its Major Federal Program

In our opinion, EDSYS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June, 30, 2013.

Report on Internal Control over Compliance

Management of EDSYS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered EDSYS's internal control over compliance with the types of

Board of Directors
EDSYS, Inc.
Independent Auditor's Report on Compliance for its Major Program and
on Internal Control over Compliance Required by OMB Circular A-133

requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of EDSYS's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Pittsburgh, Pennsylvania
October 25, 2013

EDSYS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

7. Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

EDSYS, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

None Reported

EDSYS, Inc.

Single Audit

Years Ended June 30, 2013 and 2012 with
Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

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EDSYS, INC.

YEARS ENDED JUNE 30, 2013 AND 2012

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Independent Auditor's Report

Board of Directors
EDSYS, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of EDSYS, Inc. (EDSYS), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 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 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 risk 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, 2013 and 2012, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of EDSYS'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 the 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 EDSYS's internal control over financial reporting and compliance.

Maker Duessel

Pittsburgh, Pennsylvania
October 25, 2013

EDSYS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 4,143,782	\$ 3,612,721
Cash restricted for student activities fund	26,444	38,050
Tuition receivable	272,348	501,962
Grants and other accounts receivable	272,459	345,257
Other current asset	13,840	35,186
Prepaid expenses	24,031	152,586
	<hr/>	<hr/>
Total current assets	4,752,904	4,685,762
Fixed assets, net of accumulated depreciation	1,034,123	1,277,940
	<hr/>	<hr/>
Total Assets	\$ 5,787,027	\$ 5,963,702
	<hr/>	<hr/>
Liabilities and Net Assets		
<hr/>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 148,056	\$ 68,886
Amounts held for student activities fund	26,444	38,050
Deferred revenue	12,239	22,233
Current portion of long-term debt	-	143,878
Other current liabilities	314,295	161,427
	<hr/>	<hr/>
Total current liabilities	501,034	434,474
Long-term debt	-	29,996
	<hr/>	<hr/>
Total Liabilities	501,034	464,470
	<hr/>	<hr/>
Net Assets:		
Unrestricted:		
Unrestricted; undesignated	3,961,870	4,052,459
Investment in fixed assets, net of related debt	1,034,123	1,104,066
	<hr/>	<hr/>
Total unrestricted	4,995,993	5,156,525
Temporarily restricted	290,000	342,707
	<hr/>	<hr/>
Total Net Assets	5,285,993	5,499,232
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 5,787,027	\$ 5,963,702
	<hr/>	<hr/>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:						
Tuition	\$ 8,679,340	\$ -	\$ 8,679,340	\$ 8,746,475	\$ -	\$ 8,746,475
Grant revenue and reimbursements	909,003	-	909,003	870,993	-	870,993
Contributions	3,217	50,000	53,217	50	722,100	722,150
Cafeteria revenue	98,992	-	98,992	82,739	-	82,739
Investment income	5,783	-	5,783	3,834	-	3,834
Other	50,404	-	50,404	66,203	-	66,203
Net assets released from restriction:						
Satisfaction of donor restrictions	102,707	(102,707)	-	421,908	(421,908)	-
Total revenue and other support	<u>9,849,446</u>	<u>(52,707)</u>	<u>9,796,739</u>	<u>10,192,202</u>	<u>300,192</u>	<u>10,492,394</u>
Expenses:						
Program:						
Charter School	9,471,739	-	9,471,739	8,762,901	-	8,762,901
Management and general	538,239	-	538,239	515,638	-	515,638
Total expenses	<u>10,009,978</u>	<u>-</u>	<u>10,009,978</u>	<u>9,278,539</u>	<u>-</u>	<u>9,278,539</u>
Change in Net Assets	(160,532)	(52,707)	(213,239)	913,663	300,192	1,213,855
Net Assets:						
Beginning of year	5,156,525	342,707	5,499,232	4,242,862	42,515	4,285,377
End of year	<u>\$ 4,995,993</u>	<u>\$ 290,000</u>	<u>\$ 5,285,993</u>	<u>\$ 5,156,525</u>	<u>\$ 342,707</u>	<u>\$ 5,499,232</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and employee benefits	\$ 6,244,158	\$ 197,520	\$ 6,441,678
Accounting services	-	59,726	59,726
Banking fees	-	1,565	1,565
Other professional services	358,524	42,723	401,247
Curriculum materials	66,152	-	66,152
Dues and fees	4,475	1,020	5,495
Depreciation expense	427,722	47,525	475,247
Occupancy	1,310,611	145,424	1,456,035
Legal services	-	10,723	10,723
Office supplies and miscellaneous equipment	509,070	2,422	511,492
Grants to individuals	40,000	-	40,000
Travel	234,828	1,090	235,918
Printing and binding	7,200	-	7,200
Advertising	12,489	-	12,489
Interest expense	4,150	461	4,611
Loss on disposal of fixed assets	5,386	598	5,984
Information technology	246,974	27,442	274,416
Total expenses	<u>\$ 9,471,739</u>	<u>\$ 538,239</u>	<u>\$ 10,009,978</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and employee benefits	\$ 5,627,154	\$ 143,398	\$ 5,770,552
Accounting services	-	49,643	49,643
Banking fees	-	1,639	1,639
Other professional services	357,166	71,159	428,325
Curriculum materials	38,865	-	38,865
Dues and fees	5,316	1,908	7,224
Depreciation expense	544,675	60,519	605,194
Occupancy	1,218,883	135,431	1,354,314
Legal services	-	13,028	13,028
Office supplies and miscellaneous equipment	567,070	9,355	576,425
Travel	195,772	1,898	197,670
Printing and binding	16,360	815	17,175
Advertising	8,842	6,512	15,354
Interest expense	12,053	1,339	13,392
Loss on disposal of fixed assets	-	-	-
Information technology	170,745	18,994	189,739
Total expenses	<u>\$ 8,762,901</u>	<u>\$ 515,638</u>	<u>\$ 9,278,539</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (213,239)	\$ 1,213,855
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	475,247	605,194
Loss on disposal of fixed assets	5,984	-
Change in:		
Tuition receivable	229,614	(276,472)
Grants and other accounts receivable	72,798	(208,051)
Other current asset	21,346	2,165
Prepaid expenses	128,555	(133,047)
Accounts payable	79,170	1,507
Deferred revenue	(9,994)	7,348
Other current liabilities	152,868	31,302
Net cash provided by (used in) operating activities	<u>942,349</u>	<u>1,243,801</u>
Cash Flows From Investing Activities:		
Fixed asset purchases	<u>(237,414)</u>	<u>(966,364)</u>
Cash Flows From Financing Activities:		
Repayment of borrowings	<u>(173,874)</u>	<u>(279,219)</u>
Increase (Decrease) in Cash and Cash Equivalents	531,061	(1,782)
Cash and Cash Equivalents:		
Beginning of year	<u>3,612,721</u>	<u>3,614,503</u>
End of year	<u>\$ 4,143,782</u>	<u>\$ 3,612,721</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 4,611</u>	<u>\$ 13,392</u>

See accompanying notes to financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

1. ORGANIZATION

EDSYS, Inc. (EDSYS) is a non-profit organization created to establish a technological charter 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 current charter expired June 30, 2012. As of July 1, 2012, the charter has been extended through June 30, 2017. The technological charter school opened in September 2002.

In May 2002, EDSYS registered an application for registration of a fictitious name with the Pennsylvania Department of State Corporation Bureau. As a result of the approval of this application which was received in June 2002, EDSYS operates and conducts 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 of the three self-balancing 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 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, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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 recorded when earned and expenses are recognized when the liabilities are incurred.

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) and has been classified as an organization other than a private foundation.

Further, the EDSYS annually files a Form 990. The filed Form 990 is subject to examination by the Internal Revenue Service generally for three years after it is filed.

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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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 three to 10 years of the assets using the straight-line method. Depreciation expense was \$475,247 for the year ended June 30, 2013 and \$605,194 for the year ended June 30, 2012.

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 \$500 for each absence. At June 30, 2013 and 2012, the amount accrued for attendance incentives was \$78,975 and \$82,725, respectively, and is included in other current liabilities in the statements of financial position.

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, 2013, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$4,170,226 (including \$26,444 of cash restricted for the student activities fund) and the related bank balances totaled \$4,183,044. All of the bank balance was covered by federal depository insurance.

At June 30, 2012, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$3,650,771 (including \$38,050 of cash restricted for the student activities fund) and the related bank balances totaled \$3,940,543. \$250,000 of the bank balance was covered by federal depository insurance. As required by the Commonwealth of Pennsylvania Department of Education, the remaining balance was collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the institution to pool collateral for all

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

governmental deposits and have the collateral held by an approved custodian in the institution's name.

4. GRANTS AND OTHER RECEIVABLES

During the fiscal year ended June 30, 2012, EDSYS received 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, 2013	<u>80,000</u>
Contribution receivable at June 30, 2013	<u><u>\$ 200,000</u></u>
Amounts receivable in less than 1 year	\$ 40,000
Amounts receivable in 1 to 5 years	<u>160,000</u>
Contribution receivable at June 30, 2013	<u><u>\$ 200,000</u></u>

The receivable will be collected over the next four years and have not been discounted to reflect the net present value. Based on review, it has been determined that the discounted amount is immaterial to the receivable. EDSYS believes that the entire contribution is currently collectible.

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

	<u>2013</u>	<u>2012</u>
Contributions receivable - scholarships	\$ 200,000	\$ 240,000
Contributions receivable - other	50,000	-
Lease reimbursement	-	87,750
Other	<u>22,459</u>	<u>17,507</u>
	<u><u>\$ 272,459</u></u>	<u><u>\$ 345,257</u></u>

5. FIXED ASSETS

Fixed assets at June 30, 2013 consist of the following:

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Leasehold improvements	\$ 1,213,199	\$ 40,120	\$ (1,005,572)	\$ 247,747
Furniture and fixtures	854,995	5,895	-	860,890
Office equipment	2,101	-	-	2,101
Kitchen equipment	273,371	-	(59,836)	213,535
Computer equipment	1,358,200	191,399	(391,505)	1,158,094
	<u>3,701,866</u>	<u>237,414</u>	<u>(1,456,913)</u>	<u>2,482,367</u>
Less: accumulated depreciation	<u>(2,423,926)</u>	<u>(475,247)</u>	<u>1,450,929</u>	<u>(1,448,244)</u>
Net fixed assets	<u>\$ 1,277,940</u>	<u>\$ (237,833)</u>	<u>\$ (5,984)</u>	<u>\$ 1,034,123</u>

Fixed assets at June 30, 2012 consist of the following:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Leasehold improvements	\$ 1,005,571	\$ 207,628	\$ -	\$ 1,213,199
Furniture and fixtures	590,547	264,448	-	854,995
Office equipment	2,101	-	-	2,101
Kitchen equipment	59,836	213,535	-	273,371
Computer equipment	1,533,280	280,753	(455,833)	1,358,200
	<u>3,191,335</u>	<u>966,364</u>	<u>(455,833)</u>	<u>3,701,866</u>
Less: accumulated depreciation	<u>(2,274,565)</u>	<u>(605,194)</u>	<u>455,833</u>	<u>(2,423,926)</u>
Net fixed assets	<u>\$ 916,770</u>	<u>\$ 361,170</u>	<u>\$ -</u>	<u>\$ 1,277,940</u>

Included above for June 30, 2012 is equipment of \$391,505 and related accumulated depreciation of \$277,316 that was capitalized under leasing arrangements.

Leasehold improvements related to the former location rented by EDSYS were written off subsequent to the related lease term's end of August 2012.

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 86% of students enrolled are from the City of Pittsburgh and therefore, are the financial responsibility of Pittsburgh Public Schools.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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

7. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Post high school education scholarships	\$ 240,000	\$ 280,000
Peer coach staff position	-	27,347
New science labs	-	18,659
Leadership succession	50,000	-
Outdoor/recreation activities	-	16,701
	<u>\$ 290,000</u>	<u>\$ 342,707</u>

Net assets were released from donor restriction during the years ended June 30, 2013 and 2012, in the amount of \$102,707 and \$421,908, respectively, by incurring expenses satisfying the restricted purposes.

8. LONG-TERM DEBT

EDSYS had the following long-term debt balances:

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Term loan payable in quarterly installments of \$10,659 including interest at 4% scheduled to be paid through October 2013.	\$ -	\$ 53,105
Long-term lease payable in quarterly installments of \$76,430 including interest at 4.04% scheduled to be paid through September 2013.	-	<u>120,769</u>
Total	-	173,874
Less current portion	-	<u>143,878</u>
Long-term debt	<u>\$ -</u>	<u>\$ 29,996</u>

Both the loan and lease described above were scheduled to be paid off during fiscal year ended June 30, 2014; however, EDSYS was able to pay them off early during the year ended June 30, 2013.

9. OPERATING LEASE

On August 31, 2011, EDSYS entered into a new operating lease to rent a facility to operate the charter school. The term of the lease is for ten years and eight months commencing in January 2012 and ending in August 2022. There is an optional extension term through August 2027. Rent is to be paid monthly.

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

Years Ending June 30,	<u>Total</u>
2014	\$ 1,250,000
2015	1,275,000
2016	1,275,000
2017	1,300,002
2018	1,325,000
Thereafter	<u>5,591,668</u>
	<u>\$ 12,016,670</u>

Lease expense for fiscal years 2013 and 2012 was \$1,195,905 and \$1,248,653, respectively.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

10. RETIREMENT BENEFITS

Plan Description

All employees of EDSYS participate in the Public School Employees' Retirement System (PSERS), a governmental cost sharing multi-employer 401 (a) defined benefit plan (plan). The PSERS provides retirement and disability benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Benefit provisions of the plan are established under the provisions of the Public School Employees' Retirement Code (Code) (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-9102) and may be amended by an Act of the Pennsylvania State Legislature. The PSERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the publications page of the PSERS website.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS after June 30, 2001 and before July 1, 2011 contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.

Members who joined PSERS after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

Employers must contribute at rates based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer contributions was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and .86% for healthcare insurance premium assistance. The contribution rate for school districts will increase to 16.93% for fiscal year 2014.

As of the June 30, 2012 actuarial valuation, plan has an actuarial value of assets of approximately \$58.3 billion, present value of future pension benefits of approximately \$109 billion and a funded ratio of 66.3%.

Although future years' rates have not yet been determined, it is currently projected that future rates will be the following based on the June 30, 2012 valuation:

<u>Years Ending June 30,</u>	<u>Employer Contribution Rate</u>
2015	21.31%
2016	25.80%
2017	28.30%
2018	29.15%
2019	30.14%
2020	30.87%
2021	30.78%
2022	30.76%
2023	30.93%

During fiscal years 2013 and 2012, EDSYS contributed approximately \$605,000 and \$298,000, respectively, which was equal to its required contribution for the years. These contributions represented less than 5% of the total contributions made to the plan. In accordance with Act 29, the Commonwealth of Pennsylvania reimburses a portion of contributions made to PSERS. EDSYS received approximately \$238,000 and \$140,000, respectively, in reimbursements from the Commonwealth of Pennsylvania in fiscal years 2013 and 2012.

11. SUBSEQUENT EVENTS

As of July 1, 2013, EDSYS has entered into a self-insurance plan for health insurance. EDSYS anticipates a significant cost savings over their previous health insurance provider costs.

Supplementary Information

EDSYS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>		
Passed Through the Pennsylvania Department of Education: Title I Grants to Local Educational Agencies	84.010	\$ 318,550
Improving Teacher Quality State Grants	84.367	11,770
Passed through the Pittsburgh Public Schools: Special Education - Grants to States (IDEA, Part B)	84.027	<u>96,870</u>
Total U.S. Department of Education		<u>427,190</u>
<u>U.S. Department of Agriculture:</u>		
Passed Through the Pennsylvania Department of Education: School Breakfast Program	10.553	14,040
National School Lunch Program	10.555	<u>144,787</u>
Total Child Nutrition Cluster		<u>158,827</u>
Total Expenditures of Federal Awards		<u>\$ 586,017</u>

See accompanying note to schedule of expenditures of federal awards.

EDSYS, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of EDSYS, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *“Audits of States, Local Governments, and Non-Profit Organizations.”*

EDSYS, Inc.

Independent Auditor's Reports in
Accordance with OMB Circular A-133

Year Ended June 30, 2013

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 Directors
EDSYS, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of EDSYS, Inc. (EDSYS), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered EDSYS'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 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. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EDSYS'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*.

Board of Directors
EDSYS, Inc.
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Pittsburgh, Pennsylvania
October 25, 2013

Independent Auditor's Report on Compliance for its Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
EDSYS, Inc.

Report on Compliance for its Major Federal Program

We have audited EDSYS, Inc.'s (EDSYS) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on EDSYS's major federal program for the year ended June 30, 2013. EDSYS's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for EDSYS's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about EDSYS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of EDSYS's compliance.

Opinion on its Major Federal Program

In our opinion, EDSYS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June, 30, 2013.

Report on Internal Control over Compliance

Management of EDSYS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered EDSYS's internal control over compliance with the types of

Board of Directors
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on Internal Control over Compliance Required by OMB Circular A-133

requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of EDSYS's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Pittsburgh, Pennsylvania
October 25, 2013

EDSYS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

7. Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

EDSYS, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

None Reported



Executive Summary BSE Compliance Monitoring Review of the City High Charter School

PART I SUMMARY OF FINDINGS

A. Review Process

Prior to the Bureau's monitoring the week of February 9, 2011, the City High Charter School was formally notified of the dates the onsite review would be conducted. Notice and invitation to comment was also provided to the Local Task Force on Right-to-Education. The charter school was informed of its responsibility to compile various reports, written policies, and procedures to document compliance with requirements.

While onsite, the monitoring team employed a variety of techniques to gain an in depth understanding of the charter school's program operations. This included:

- Interviews of charter school administrative and instructional personnel
- Review of policies, notices, plans, outcome and performance data, special education forms and formats, and data reports used and compiled by the charter school (Facilitated Self-Assessment)
- Comprehensive case studies (including classroom observations, interviews of parents, students, and general and special education teachers, and student file reviews).

B. General Findings

In reaching compliance determinations, the Bureau of Special Education (BSE) monitoring teams apply criteria contained in federal and state special education regulations. Specifically, these are:

- Individuals with Disabilities Education Improvement Act of 2004
- 22 Pa. Code Chapter 711
- 34 CFR Part 300

This report focuses on compliance with regulatory requirements and also contains descriptive information (such as interview and survey results) intended to provide feedback to assist in program planning.

Commendations

In addition to reporting the status of compliance, the BSE wishes to recognize the City High Charter School for the following:

- The Charter School is commended for the materials developed by the charter school and given to parents for information purposes. The materials are comprehensive and professional in appearance.
- The Charter School is commended for its continuous and comprehensive parent involvement and staff inservice training.

C. Overall Findings

1. FACILITATED SELF ASSESSMENT (FSA)

The team reviewed the FSA submitted by the charter school and conducted onsite verification activities of the information submitted in the FSA. The onsite verification activities included review of policies, notices, procedures, and file reviews.

FSA	In Compliance	Out of Compliance
Assistive Technology and Services; Hearing Aids	2	0
Positive Behavior Support Policy	1	0
Child Find (Annual Public Notice and General Dissemination Materials)	1	0
Confidentiality	1	0
Dispute Resolution (Due process hearing decision implementation)	0	0
Exclusions: Suspensions and Expulsions (Procedural Requirements)	1	0
Independent Education Evaluation	1	0
Least Restrictive Environment (LRE)	1	0
Provision of Extended School Year Services	1	0
Provision of Related Service Including Psychological Counseling	1	0
Parent Training	1	0
Public School Enrollment	1	0
Surrogate Parents (Students Requiring)	1	0
Personnel Training	1	0
Intensive Interagency Approach	1	0
Summary of Academic Achievement and Functional Performance/Procedural Safeguard Requirements for Graduation	1	0
Disproportionate Representation that is the Result of Inappropriate Identification	1	0

IMPROVEMENT PLAN REQUIRED	Yes	No
Effective use of Dispute Resolution	0	1
Graduation Rates (SPP)	0	1
Dropout Rates (SPP)	0	1
Suspensions (Rates)	0	1
Least Restrictive Environment (LRE) (SPP)	0	1
Participation in PSSA and PASA (SPP)	0	1
Participation in Charter-Wide Assessment	0	1
Public School Enrollment	0	1
Disproportionate Representation due to Identification, Educational Environment, Suspension or Expulsion	0	1

2. FILE REVIEW (Student case studies)

The education records of randomly selected students participating in special education programs were studied to determine whether the charter school complied with essential requirements.

The status of compliance of the City High Charter School is as follows:

Sections of the FILE REVIEW	In Compliance	Out of Compliance	NA
Essential Student Documents Are Present and Were Prepared Within Timelines	90	0	70
Evaluation/Reevaluation: Process and Content	324	2	454
Individualized Education Program: Process and Content	529	0	271
Procedural Safeguards: Process and Content	119	1	0
TOTALS	1062	3	795

3. TEACHER AND PARENT INTERVIEWS

Interviews were conducted with parents and teachers of students selected by the BSE for the sample group. The goal is to determine if the charter school involves parents and professionals in required processes (e.g., evaluation, IEP development), whether programs and services are being provided, and whether the charter school provides training to enhance knowledge. Parent and teacher satisfaction with the special education program is also generally assessed.

	# Yes Responses	# No Responses	# of Other Responses
Program Implementation: General Ed Teacher Interviews	237	2	101
Program Implementation: Special Ed Teacher Interviews	305	4	149
Program Implementation: Parent Interviews	192	11	115
TOTALS	734	17	365

4. STUDENT INTERVIEWS

Results of the student interviews are reflected on the Charter School Corrective Action Verification/Compliance and Improvement Planning document.

5. CLASSROOM OBSERVATIONS

Observations are conducted in classrooms of students selected by the BSE for the sample group.

	# Yes Responses	# No Responses	# of Other Responses
Classroom Observations	99	0	20

6. EDUCATIONAL BENEFIT REVIEW

	In Compliance	Out of Compliance
Educational Benefit Review	X	

PART II

CORRECTIVE ACTION PROCESS

PART I of this report presented an overall summary of findings. In the Appendix to the report, we have provided the detailed findings for each of the criteria of the compliance monitoring document, i.e. FSA, File Reviews, Interviews and Classroom Observations. The detailed report of findings includes:

- Criteria Number
- Statements of all requirements
- Whether each requirement was met, not met, not applicable or other
- Statements of corrective action required for those criteria not met. ***Criteria not met that require corrective action by the charter school are gray-shaded.***

Charter schools are advised that in accordance with requirements of the Individuals with Disabilities Education Act, all noncompliance must be corrected as soon as possible but in no case later than one year from the date of the monitoring report. The BSE is required to verify timely correction of noncompliance, and must report annually to the federal government and the public on this requirement.

Upon receipt of this report, the charter school should review the corrective action and improvement planning required. The report is formatted so that findings from all components of the monitoring are consolidated by topical area. The report lists the finding, and whether corrective action is required. For certain types of findings, corrective action will be prescribed, and will not vary from charter school to charter school. For example, if the finding is that the charter school lacks a specific required policy, it is reasonable to have the BSE prescribe a standardized remedy and timeline for correcting this deficiency. However, the majority of corrective action activities will be individually designed by the charter school based on their own unique circumstances and goals. Consistent with IDEA's general supervision requirements for states, BSE must approve all proposed corrective action.

With respect to the File Review, because students were selected at random, findings are generalized to the entire population of students with disabilities. During the corrective action review, the BSE Advisor will select students at random and will review updated data, i.e. records that were developed subsequent to the monitoring. Consequently, the charter school should approach corrective action on a systemic basis. As indicated above, the charter school is also required to correct student specific noncompliance identified during monitoring under the ICAP process. If there has been a finding of noncompliance in the Educational Benefit Review component, the individual students are identified to the charter school and, because of the significance of the provision of a free appropriate public education (FAPE) to these students; the charter school must take immediate corrective action.

The BSE Adviser will schedule an onsite visit with the charter school within 60 days following issuance of the monitoring report. The BSE Adviser, charter school, and PaTTAN staff will develop a Charter School Corrective Action Verification/Compliance and Improvement Plan. PaTTAN and IU staff is available to assist the charter school.

Upon conclusion of the corrective action process, the charter school will be notified of its successful completion of the monitoring process.