

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

Financial Statements

Years Ended June 30, 2020 and 2019
with Independent Auditor's Report

MaherDuessel

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EDSYS, INC.

YEARS ENDED JUNE 30, 2020 AND 2019

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Independent Auditor's Report

Board of Directors EDSYS, Inc.

We have audited the accompanying financial statements of EDSYS, Inc. (EDSYS), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EDSYS as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 to the financial statements, EDSYS adopted ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* which provides guidance for revenue recognition related to contracts involving the transfer of promised goods or services to customers and related disclosures, and ASU 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958).”* Our opinion is not modified with respect to these matters.

As described in Note 2 to the financial statements, EDSYS adopted ASU 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash.”* The accounting principle was applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

Maher Duessel

Pittsburgh, Pennsylvania
November 23, 2020

EDSYS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,351,702	\$ 3,540,572
Cash restricted for student activities fund	38,551	48,188
Tuition receivable	803,521	802,884
Grants and other accounts receivable	80,318	14,287
Other current assets	29,502	45,588
Prepaid expenses	233,027	215,133
Total current assets	5,536,621	4,666,652
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	573,831	701,261
Total Assets	\$ 6,110,452	\$ 5,367,913
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 9,284	\$ 53,479
Amounts held for student activities fund	38,551	48,188
Other current liabilities	441,471	311,097
Total Current Liabilities	489,306	412,764
Net Assets:		
Without donor restrictions:		
Undesignated	4,928,482	4,038,130
Board-designated:		
Lease payments	58,333	214,893
Investment in property and equipment	573,831	701,261
Total without donor restrictions	5,560,646	4,954,284
With donor restrictions	60,500	865
Total Net Assets	5,621,146	4,955,149
Total Liabilities and Net Assets	\$ 6,110,452	\$ 5,367,913

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:						
Tuition	\$ 11,385,064	\$ -	\$ 11,385,064	\$ 11,010,091	\$ -	\$ 11,010,091
Grant revenue and reimbursements	704,603	-	704,603	707,326	-	707,326
Contributions	6,500	60,000	66,500	52,000	-	52,000
Cafeteria revenue	62,605	-	62,605	92,709	-	92,709
Investment income	55,032	-	55,032	63,203	-	63,203
Other	72,325	-	72,325	39,549	-	39,549
Net assets released from restriction:						
Satisfaction of donor restrictions	365	(365)	-	84,135	(84,135)	-
Total revenue and other support	12,286,494	59,635	12,346,129	12,049,013	(84,135)	11,964,878
Expenses:						
Program:						
Charter School	11,128,917	-	11,128,917	11,087,813	-	11,087,813
Management and general	551,215	-	551,215	564,909	-	564,909
Total expenses	11,680,132	-	11,680,132	11,652,722	-	11,652,722
Change in Net Assets	606,362	59,635	665,997	396,291	(84,135)	312,156
Net Assets:						
Beginning of year	4,954,284	865	4,955,149	4,557,993	85,000	4,642,993
End of year	<u>\$ 5,560,646</u>	<u>\$ 60,500</u>	<u>\$ 5,621,146</u>	<u>\$ 4,954,284</u>	<u>\$ 865</u>	<u>\$ 4,955,149</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program	Management and General	Total
Salaries and employee benefits	\$ 7,822,372	\$ 172,288	\$ 7,994,660
Accounting services	-	38,141	38,141
Banking fees	-	70	70
Other professional services	777,904	82,180	860,084
Curriculum materials	62,103	-	62,103
Dues and fees	5,029	-	5,029
Depreciation expense	230,143	25,572	255,715
Occupancy	1,413,945	157,105	1,571,050
Legal services	-	60,986	60,986
Office supplies and miscellaneous equipment	316,481	3,265	319,746
Scholarships	-	-	-
Student activities	24,245	-	24,245
Travel	2,263	656	2,919
Student transportation	217,278	-	217,278
Food Services	113,989	-	113,989
Printing and binding	4,473	-	4,473
Advertising	40,125	-	40,125
Information technology	98,567	10,952	109,519
Total expenses	<u>\$ 11,128,917</u>	<u>\$ 551,215</u>	<u>\$ 11,680,132</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program	Management and General	Total
Salaries and employee benefits	\$ 7,717,192	\$ 191,314	\$ 7,908,506
Accounting services	-	37,070	37,070
Banking fees	-	48	48
Other professional services	641,462	99,181	740,643
Curriculum materials	44,987	-	44,987
Dues and fees	2,919	239	3,158
Depreciation expense	253,839	28,204	282,043
Occupancy	1,438,229	159,803	1,598,032
Legal services	-	30,957	30,957
Office supplies and miscellaneous equipment	293,567	3,508	297,075
Scholarships	53,450	-	53,450
Student activities	24,568	-	24,568
Travel	2,675	3,081	5,756
Student transportation	285,044	-	285,044
Food services	162,774	-	162,774
Printing and binding	12,143	-	12,143
Advertising	51,429	-	51,429
Information technology	103,535	11,504	115,039
Total expenses	<u>\$ 11,087,813</u>	<u>\$ 564,909</u>	<u>\$ 11,652,722</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ 665,997	\$ 312,156
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	255,715	282,043
Change in:		
Tuition receivable	(637)	(624,533)
Grants and other accounts receivable	(66,031)	68,252
Amount held for student activities fund	(9,637)	(4,681)
Other current assets	16,086	(614)
Prepaid expenses	(17,894)	(5,651)
Accounts payable	(44,195)	(43,340)
Other current liabilities	130,374	93,899
Net cash provided by (used in) operating activities	929,778	77,531
Cash Flows From Investing Activities:		
Payments for property and equipment	(128,285)	(127,334)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	801,493	(49,803)
Cash, Cash Equivalents, and Restricted Cash:		
Beginning of year, restated	3,588,760	3,638,563
End of year	\$ 4,390,253	\$ 3,588,760
Consists of:		
Cash and cash equivalents	\$ 4,351,702	\$ 3,540,572
Cash restricted for student activities fund	38,551	48,188
	\$ 4,390,253	\$ 3,588,760

See accompanying notes to financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

1. Organization

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

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

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

2. Summary of Significant Accounting Policies

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

Financial Statement Presentation

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

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

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations. At times, the Board of Directors (Board) may designate a portion of the net assets without donor restrictions to be used for certain projects. As of June 30, 2020 and 2019, the Board designated \$58,333 and \$214,893, respectively, consisting of funds set aside to cover incremental monthly lease payments as required under the lease terms (as described in Note 8). These amounts could be made available for general operating purposes by Board approval if necessary.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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

Basis of Accounting

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

Functional Allocation of Expenses

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

Income Taxes

EDSYS is recognized by the Internal Revenue Service as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, EDSYS qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii) and has been classified as an organization other than a private foundation. Further, EDSYS annually files a Form 990.

Cash and Cash Equivalents

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

Prepaid Expenses

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

Liquidity and Availability

EDSYS manages its liquid resources by focusing on timely billing and collection of tuition, as well as various fundraising efforts, to ensure the entity has adequate funds to cover the

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

educational services and programs that are being conducted. EDSYS prepares very detailed budgets and has been very active in fiscal management to ensure the entity remains liquid.

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

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

	2020	2019
Financial assets, at year-end	\$ 5,265,043	\$ 4,403,331
Less: those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	(60,500)	(865)
Board designated - lease payments	(58,333)	(214,893)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,146,210</u>	<u>\$ 4,187,573</u>

Revenue and Contribution Recognition

Tuition revenue represents the tuition paid by various Western Pennsylvania School Districts for the students enrolled in EDSYS who reside within that particular school district. This revenue is earned and recognized during the applicable school year as the performance obligation of delivering education services is simultaneously received and consumed by the students. EDSYS has elected not to establish 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.

Contributions, including unconditional promises to give, are recognized when received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give, that is, those with a

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give as of June 30, 2020. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

A portion of EDSYS revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when EDSYS has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. EDYSY did not have any refundable advances at June 30, 2020 or 2019.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Property and equipment of \$5,000 or more are capitalized. Depreciation is computed over the estimated useful lives of four to ten years of the assets using the straight-line method. Depreciation expense was \$255,715 for the year ended June 30, 2020 and \$282,043 for the year ended June 30, 2019.

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, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic and the COVID-19 control responses, and such differences may be material.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Compensated Absences

Unused sick or vacation days do not carry over each year and are not reimbursed if they are unused. However, EDSYS provides a perfect attendance bonus incentive of \$2,000. This bonus is reduced by \$200 for each absence up to ten days. At June 30, 2020 and 2019, the amount accrued for attendance incentives was \$136,400 and \$ 111,800, respectively, and is included in other current liabilities in the statements of financial position.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Adopted Accounting Standards Updates

The provisions of these Standards Updates have been adopted and incorporated into these financial statements.

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606).”* The amendments provide guidance for revenue recognition related to contracts involving the transfer of promised goods or services to customers and the related disclosures. The provisions of the guidance were adopted but did not have a material impact on the financial statements.

ASU 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958).”* The amendments provide guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. Implementation of these amendments had no impact on the financial statements.

ASU 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash.”* The amendments require that the statement of cash flows explain the change during the period in the total cash and cash equivalents including the changes of those amounts generally described as restricted cash or restricted cash equivalents. As a result of the adoption of this ASU, beginning of year cash on the statement of cash flows was restated to include restricted cash for all periods presented.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Pending Accounting Standards Update

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of this update on the financial statements.

ASU 2016-02, "*Leases (Topic 842)*," is effective, as delayed, for the financial statements for the year beginning after December 15, 2021. These amendments and related amendments will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

3. Cash and Cash Equivalents

At June 30, 2020, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$4,390,253 (including \$38,551 of cash restricted for the student activities fund) and the related bank balances totaled \$4,648,124. All of the bank balance was covered by federal depository insurance.

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

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

4. Grants and Other Accounts Receivable

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

	2020	2019
Pennsylvania Department of Education	\$ 9,918	\$ 14,287
Partner4Work	33,275	-
School Districts - Transportation	37,125	-
	<u>\$ 80,318</u>	<u>\$ 14,287</u>

5. Property and Equipment

Property and equipment at June 30, 2020 consist of the following:

	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
Depreciable assets:				
Leasehold improvements	\$ 713,251	\$ -	\$ -	\$ 713,251
Furniture and fixtures	1,062,582	15,428	-	1,078,010
Office equipment	2,101	-	-	2,101
Kitchen equipment	221,996	-	-	221,996
Computer equipment	771,564	112,857	(114,673)	769,748
Total depreciable assets	<u>2,771,494</u>	<u>128,285</u>	<u>(114,673)</u>	<u>2,785,106</u>
Less: accumulated depreciation	<u>(2,070,233)</u>	<u>(255,715)</u>	<u>114,673</u>	<u>(2,211,275)</u>
Net property and equipment	<u>\$ 701,261</u>	<u>\$ (127,430)</u>	<u>\$ -</u>	<u>\$ 573,831</u>

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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

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

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 77% of students enrolled are from the City of Pittsburgh and, therefore, are economically dependent on tuition from Pittsburgh Public Schools.

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

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

7. Net Assets with Donor Restrictions

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

	2020	2019
Post high school education scholarships	\$ 50,500	\$ 500
Outdoor/recreation activities	-	365
Teacher training and symposium	10,000	-
	<u>\$ 60,500</u>	<u>\$ 865</u>

Net assets were released from donor restrictions during the years ended June 30, 2020 and 2019 in the amount of \$365 and \$84,135, respectively, by incurring expenses satisfying the restricted purposes.

8. Operating Lease

On August 31, 2011, EDSYS entered into a new operating lease to rent a facility to operate the charter school. The initial term of the lease is for ten years and eight months commencing in January 2012 and ending in August 2022. On July 7, 2017, the lease was amended extending the lease through August 2027. Rent is to be paid monthly in the amount of \$116,667.

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

Years Ending June 30,	Total
2021	\$ 1,400,000
2022	1,400,000
2023	1,462,500
2024	1,475,000
2025	1,483,333
Thereafter	<u>3,250,000</u>
	<u>\$ 10,470,833</u>

Lease expense for fiscal years 2020 and 2019 was \$1,398,867 and \$ 1,427,559, respectively.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

9. Retirement Benefits

Plan Description

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

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

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

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

Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011 through June 30, 2019. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

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

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

Benefits Provided – Premium Assistance

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their eligible out-of-pocket monthly health insurance premium. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees.

Member Contributions

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

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

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

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- Members who joined PSERS after June 30, 2011 and before June 30, 2019:
 - Membership Class T-E* 7.50%
 - Membership Class T-F** 10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation establishes a new hybrid defined benefit/defined contribution retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019 and thereafter. The three new plan design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019.

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

Employer Contributions

EDSYS's contractually required PSERS contribution rate for the fiscal year ended June 30, 2020 was 34.29% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. This rate is composed of a 33.36% rate for the Pension Plan, a 0.84% rate for the Premium Assistance, and a 0.09% rate for Act 5 Defined Contribution.

The combined rate for the fiscal year ended June 30, 2020 was an increase from the fiscal year ended June 30, 2019 combined rate of 33.43%. The combined contribution rate will increase to 34.51% in fiscal year 2021 and is projected to grow to 38.17% by fiscal year 2028.

For fiscal year 2020, EDSYS contributions (including Premium Assistance) approximated \$1,417,000, which were equal to its required contributions including estimates for accruals for that year. These contributions represent less than 5% of the total contributions made to the plan.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

As of the June 30, 2019 actuarial valuation, the PSERS pension plan has a system fiduciary net position of \$58.7 billion, total pension liability of approximately \$105.5 billion, and a funded ratio of 55.66%. EDSYS's portion of the net pension liability was \$14.2 million as of June 30, 2019.

As of the June 30, 2019 actuarial valuation, the PSERS Premium Assistance plan has a system fiduciary net position of approximately \$125 million, total OPEB liability of approximately \$2.25 billion, and a funded ratio of 5.56%. EDSYS's portion of the net OPEB liability was \$647,000 as of June 30, 2019.

401(k) Plan

EDSYS offers a 401(k) plan to employees as an alternative to PSERS. All employees hired after July 1, 2017 will only be eligible to enroll in the 401(k) plan. All employees become eligible to participate as of the individual's hire date. They will be 20% vested after two years of service, 40% after three years, 60% after four years, 80% after five years, and 100% vested after six years of employment. EDSYS makes matching contributions of up to 7% of eligible compensation and a non-elective contribution of 5%. Contributions to the plan for the years ended June 30, 2020 and 2019 were \$ 124,891 and \$ 77,520, respectively.

10. Coronavirus Impact

In early 2020, an outbreak of a novel strain of coronavirus was identified, and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity, and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. While revenue for EDSYS remained consistent for the year ended June 30, 2020 and the Commonwealth has budgeted no decrease in the education budget for fiscal year 2021, the extent of the negative impact of the coronavirus on EDSYS's operational and financial performance is currently uncertain and cannot be predicted. Future impacts on the School will depend on certain developments, including, among others, the duration and spread of the outbreak, its impact on enrollment rates, employees, and vendors, and governmental, regulatory, and other responses to the coronavirus.

During the spring of 2020, EDSYS was awarded approximately \$90,000 in School Health and Safety Grants from the Pennsylvania Commission on Crime and Delinquency.