

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

Financial Statements

**Years Ended June 30, 2016 and 2015 with
Independent Auditor's Report**

MaherDuessel
Certified Public Accountants

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EDSYS, INC.

YEARS ENDED JUNE 30, 2016 AND 2015

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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, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EDSYS as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maher Duessel
Pittsburgh, Pennsylvania
October 26, 2016

EDSYS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,919,393	\$ 4,080,812
Cash restricted for student activities fund	64,459	64,606
Tuition receivable	470,221	151,516
Grants and other accounts receivable	111,626	136,899
Other current asset	45,888	34,460
Prepaid expenses	74,266	75,946
Total current assets	4,685,853	4,544,239
Noncurrent assets:		
Grants receivable	40,000	80,000
Fixed assets, net of accumulated depreciation	862,897	1,028,586
Total noncurrent assets	902,897	1,108,586
Total Assets	\$ 5,588,750	\$ 5,652,825
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 55,620	\$ 23,400
Amounts held for student activities fund	64,459	64,606
Deferred revenue	2,497	-
Other current liabilities	206,187	219,766
Total Current Liabilities	328,763	307,772
Net Assets:		
Unrestricted:		
Unrestricted - undesignated	2,175,860	1,985,514
Unrestricted - board-designated		
Lease payments	491,660	516,660
Retirement contributions	1,565,070	1,589,293
Investment in fixed assets	862,897	1,028,586
Total unrestricted	5,095,487	5,120,053
Temporarily restricted	164,500	225,000
Total Net Assets	5,259,987	5,345,053
Total Liabilities and Net Assets	\$ 5,588,750	\$ 5,652,825

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:						
Tuition	\$ 9,805,998	\$ -	\$ 9,805,998	\$ 9,431,134	\$ -	\$ 9,431,134
Grant revenue and reimbursements	646,563	-	646,563	852,137	-	852,137
Contributions	14,250	8,500	22,750	10,000	65,000	75,000
Cafeteria revenue	94,437	-	94,437	93,724	-	93,724
Investment income	8,645	-	8,645	7,927	-	7,927
Other	69,029	-	69,029	55,793	-	55,793
Net assets released from restriction:						
Satisfaction of donor restrictions	69,000	(69,000)	-	72,500	(72,500)	-
Total revenue and other support	10,707,922	(60,500)	10,647,422	10,523,215	(7,500)	10,515,715
Expenses:						
Program:						
Charter School	10,210,414	-	10,210,414	9,887,719	-	9,887,719
Management and general	522,074	-	522,074	515,115	-	515,115
Total expenses	10,732,488	-	10,732,488	10,402,834	-	10,402,834
Change in Net Assets	(24,566)	(60,500)	(85,066)	120,381	(7,500)	112,881
Net Assets:						
Beginning of year	5,120,053	225,000	5,345,053	4,999,672	232,500	5,232,172
End of year	\$ 5,095,487	\$ 164,500	\$ 5,259,987	\$ 5,120,053	\$ 225,000	\$ 5,345,053

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

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

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Program	Management and General	Total
Salaries and employee benefits	\$ 6,717,809	\$ 177,482	\$ 6,895,291
Accounting services	-	60,941	60,941
Banking fees	-	681	681
Other professional services	580,219	54,679	634,898
Curriculum materials	40,333	-	40,333
Dues and fees	3,947	1,250	5,197
Depreciation expense	321,666	35,741	357,407
Occupancy	1,375,457	152,829	1,528,286
Legal services	-	15,504	15,504
Office supplies and miscellaneous equipment	429,660	117	429,777
Scholarships	43,600	-	43,600
Travel	199,603	2,683	202,286
Printing and binding	16,279	138	16,417
Advertising	1,047	-	1,047
Bad debt expense	40,474	-	40,474
Information technology	117,625	13,070	130,695
Total expenses	<u>\$ 9,887,719</u>	<u>\$ 515,115</u>	<u>\$ 10,402,834</u>

See accompanying notes to financial statements.

EDSYS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ (85,066)	\$ 112,881
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	337,282	357,407
Change in:		
Tuition receivable	(318,705)	89,935
Grants and other accounts receivable	65,273	105,506
Other current asset	(11,428)	1,418
Prepaid expenses	1,680	100,608
Accounts payable	32,220	(44,532)
Deferred revenue	2,497	(4,562)
Other current liabilities	(13,579)	(15,965)
Net cash provided by (used in) operating activities	10,174	702,696
Cash Flows From Investing Activities:		
Fixed asset purchases	(171,593)	(367,337)
Increase (Decrease) in Cash and Cash Equivalents	(161,419)	335,359
Cash and Cash Equivalents:		
Beginning of year	4,080,812	3,745,453
End of year	<u>\$ 3,919,393</u>	<u>\$ 4,080,812</u>

See accompanying notes to financial statements.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

1. ORGANIZATION

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

EDSYS began operations in January 2001. The original charter expired June 30, 2012. As of July 1, 2012, the charter has been extended through June 30, 2017. The technological charter school opened in September 2002.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Statement Presentation

EDSYS is required to report information regarding its financial position and activities according to classes of net assets: unrestricted, temporarily restricted, and permanently restricted. EDSYS is also required to present a statement of cash flows.

The net assets of EDSYS are reported in two 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

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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

Basis of Accounting

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

Contributions and Gifts

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions, gifts, and unconditional promises to give cash and other assets to EDSYS are reported at fair value at the date notified. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is physically received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

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

Income Taxes

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

Further, the EDSYS annually files a Form 990.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Cash and Cash Equivalents

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

Tuition Revenue – School Districts

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

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Fixed assets of \$5,000 or more are capitalized. Depreciation is computed over the estimated useful lives of four to ten years of the assets using the straight-line method. Depreciation expense was \$337,282 for the year ended June 30, 2016 and \$357,407 for the year ended June 30, 2015.

Use of Estimates

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

Compensated Absences

Unused sick or vacation days do not carry over each year and are not reimbursed if they are unused. However, EDSYS provides a perfect attendance bonus incentive of \$2,000. This bonus is reduced by \$200 for each absence up to ten days. At June 30, 2016 and 2015, the amount accrued for attendance incentives was \$98,900 and \$102,033, respectively, and is included in other current liabilities in the statements of financial position.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Pending Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-14, “*Not-for-Profit Entities (Topic 958)*,” which aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, how underwater donor-restricted endowment funds are treated, will increase the information available about liquidity and the availability of resources, requires financial statements for not-for-profits to provide expenses both by nature and function, as well as an analysis of those expenses by both nature and function, along with disclosure of the methods used to allocate those costs among the various functions, and standardizes how organizations present investment returns and what expenses should be netted against those returns. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The changes in the standard are effective for annual financial statements issued for fiscal years beginning after Dec. 15, 2017. Early application of the amendments in the ASU is allowed. EDSYS is in the process of determining the impact of the adoption of this guidance on its financial statements.

ASU-2016-02, “*Leases (Topic 842)*,” effective for the EDSYS’s financial statements for the year ending June 30, 2021. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Management has not yet determined the impact of this amendment on EDSYS’s financial statements.

ASU 2014-09, “*Revenue from Contracts with Customers*,” is effective for the EDSYS’s financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. Management has not yet determined the impact of this amendment on EDSYS’s financial statements.

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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

3. CASH AND CASH EQUIVALENTS

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

At June 30, 2015, the carrying amount of EDSYS's deposits (cash and money market instruments) was \$4,145,418 (including \$64,606 of cash restricted for the student activities fund) and the related bank balances totaled \$4,216,590. All of the bank balance was covered by federal depository insurance.

4. GRANTS AND OTHER RECEIVABLES

During the fiscal year ended June 30, 2012, EDSYS recognized a contribution of \$280,000 to be used for post high school education scholarships. EDSYS will receive \$40,000 annually for seven years to be used for that year's graduating class.

Total contribution	\$ 280,000
Less amount received through June 30, 2016	<u>200,000</u>
Contribution receivable at June 30, 2016	<u><u>\$ 80,000</u></u>
Amounts receivable in less than 1 year	\$ 40,000
Amounts receivable in 1 to 5 years	<u>40,000</u>
Contribution receivable at June 30, 2016	<u><u>\$ 80,000</u></u>

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

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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

	2016	2015
Contributions receivable - scholarships	\$ 80,000	\$ 120,000
Contributions receivable - other	41,000	65,000
Other	30,626	31,899
	<u>\$ 151,626</u>	<u>\$ 216,899</u>

5. FIXED ASSETS

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

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

Fixed assets at June 30, 2015 consist of the following:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Leasehold improvements	\$ 421,804	\$ 91,636	\$ -	\$ 513,440
Furniture and fixtures	885,432	31,942	-	917,374
Office equipment	2,101	-	-	2,101
Kitchen equipment	221,996	-	-	221,996
Computer equipment	963,956	243,759	(273,110)	934,605
	<u>2,495,289</u>	<u>367,337</u>	<u>(273,110)</u>	<u>2,589,516</u>
Less: accumulated depreciation	<u>(1,476,633)</u>	<u>(357,407)</u>	<u>273,110</u>	<u>(1,560,930)</u>
Net fixed assets	<u>\$ 1,018,656</u>	<u>\$ 9,930</u>	<u>\$ -</u>	<u>\$ 1,028,586</u>

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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 88% of students enrolled are from the City of Pittsburgh and, therefore, are the financial responsibility of Pittsburgh Public Schools.

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

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Post high school education scholarships	\$ 123,500	\$ 160,000
Outdoor/Recreation activities	32,500	65,000
Transportation, clothing, and medical expenses for students in need	<u>8,500</u>	<u>-</u>
	<u><u>\$ 164,500</u></u>	<u><u>\$ 225,000</u></u>

Net assets were released from donor restriction during the years ended June 30, 2016 and 2015, in the amount of \$69,000 and \$72,500, 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 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.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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

<u>Years Ending June 30,</u>	<u>Total</u>
2017	\$ 1,302,400
2018	1,325,000
2019	1,325,000
2020	1,341,667
2021	1,350,000
Thereafter	1,575,000
	<u>\$ 8,219,067</u>

Lease expense for fiscal years 2016 and 2015 was \$1,282,000 and \$1,279,800, respectively.

9. RETIREMENT BENEFITS

Plan Description

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member Contributions:

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

Active members who joined PSERS prior to July 22, 1983:

Membership Class T-C	5.25%
Membership Class T-D	6.50%

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:

Membership Class T-C	6.25%
Membership Class T-D	7.50%

Members who joined PSERS after June 30, 2001, and before July 1, 2011:

Membership Class T-D	7.50%
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Members who joined PSERS after June 30, 2011:

Membership Class T-E*	7.50%
Membership Class T-F**	10.30%

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

- * Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.
- ** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Employer Contributions:

EDSYS's contractually required pension contribution rates for fiscal years ended June 30, 2016 and 2015 was 25.00%, and 20.50%, respectively, 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.

In addition, for fiscal years ended June 30, 2016 and 2015 EDSYS was required to contribute 0.84% and .90%, respectively, of covered payroll to the Premium Assistance.

The combined contribution rate will increase to 30.03% in fiscal year 2017 and is projected to grow to 34.18% by fiscal year 2026.

During fiscal years 2016 and 2015, EDSYS contributed approximately \$1,300,000 and \$1,000,000, towards pension benefits which were recognized by PSERS. These contributions represented less than 5% of the total contributions made to the plan.

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses School Districts a portion of contributions made to PSERS. Currently, the Commonwealth of Pennsylvania is no longer reimbursing a portion of the employer contributions made to PSERS. EDSYS received approximately \$0 and \$190,000, respectively, in reimbursements from the Commonwealth of Pennsylvania in fiscal years 2016 and 2015. The \$190,000 related to reimbursements relate to the June 30, 2014 fiscal year.

As of June 30, 2015, the pension plan has a total pension liability of \$94,900,830,000 plan fiduciary net position of \$(51,585,521,000), employer net pension liability of \$43,315,309,000 and a 54.36% plan fiduciary net position as percentage of total pension liability. For fiscal years ended June 30, 2016 and 2015 (June 30, 2015 and 2014 measurement periods respectively), EDSYS's share of the net pension liability is \$15,680,000 and \$14,882,000, respectively.

EDSYS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

10. CONTINGENCY

In July 2016, EDSYS requested for renewal of the current charter from its chartering school district. Pursuant to Section 1728-A of the Charter School Law, a site visit and comprehensive review of the previous five years will be conducted by the chartering school district. EDSYS's review is anticipated to occur during the fall of 2016.