



**EDGE LEARNING, INC.
d.b.a. THE EDGE ACADEMY
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEARS ENDED JUNE 30, 2002 and 2001



**Auditor of State
Betty Montgomery**

EDGE LEARNING, INC. D.B.A. THE EDGE ACADEMY
SUMMIT COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
92 North Union Street
Akron, Ohio 44304

To the Board of Trustees:

We have audited the Balance Sheets of Edge Learning, Inc., d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) as of June 30, 2002 and 2001, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and of Cash Flows for the years then ended. These financial statements are the responsibility of the Academy's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Edge Learning, Inc. d.b.a. The Edge Academy, Summit County, as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2003 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended June 30, 2002. We previously issued our report dated January 23, 2002, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, for the year ended June 30, 2001. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
Independent Accountants' Report
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The accompanying Schedule of Receipts and Expenditures of Federal Awards for the year ended June 30, 2002 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 27, 2003

THE EDGE ACADEMY
SUMMIT COUNTY

BALANCE SHEETS
AS OF JUNE 30, 2002 AND 2001

	2002	2001
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 51,665	\$ 50,437
Marketable securities	10,315	0
State and federal grants receivable	43,002	18,973
TOTAL CURRENT ASSETS	104,982	69,410
PROPERTY AND EQUIPMENT		
Computer equipment	3,862	0
Furniture and equipment	11,270	0
	15,132	0
Less: accumulated depreciation	(2,233)	0
	12,899	0
TOTAL ASSETS	\$ 117,881	\$ 69,410
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 10,218	\$ 22,765
Accrued wages and benefits	40,817	33,920
Current portion of capital lease obligation	2,422	0
TOTAL CURRENT LIABILITIES	53,457	56,685
LONG-TERM LIABILITIES		
Capital lease obligation, less current portion	415	0
EQUITY		
Retained earnings, unreserved	64,009	12,725
TOTAL LIABILITIES AND EQUITY	\$ 117,881	\$ 69,410

The accompanying notes are an integral part of these statements.

THE EDGE ACADEMY
SUMMIT COUNTY

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
<u>OPERATING REVENUES</u>		
State foundation	\$ 886,107	\$ 668,298
Other operating revenues	1,937	20,180
	888,044	688,478
TOTAL OPERATING REVENUES		
<u>OPERATING EXPENSES</u>		
Salaries	533,910	465,081
Retirement	73,940	63,907
Insurance	38,148	27,959
Rent	129,400	88,605
Purchased services	210,952	109,478
Materials and supplies	193,515	101,195
Utilities	16,372	4,793
Depreciation and amortization	2,233	0
Other operating expenses	12,639	30,152
	1,211,109	891,170
TOTAL OPERATING EXPENSES		
OPERATING LOSS	(323,065)	(202,692)
<u>NON-OPERATING REVENUES</u>		
Interest income	1,719	0
Interest expense	(154)	0
State and federal grants	362,637	134,181
Donation of marketable securities	10,147	0
	374,349	134,181
NET INCOME (LOSS)	51,284	(68,511)
RETAINED EARNINGS AT BEGINNING OF YEAR	12,725	81,236
RETAINED EARNINGS AT END OF YEAR	\$ 64,009	\$ 12,725

The accompanying notes to the financial statements are an integral part of these statements.

THE EDGE ACADEMY
SUMMIT COUNTY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

<u>Increase (Decrease) in Cash</u>	2002	2001
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 867,670	\$ 690,358
Cash payments to employees for services and benefits	(600,952)	(519,620)
Cash payments to suppliers for goods and services	(582,497)	(367,055)
Cash payments for other operating expenses	(12,639)	0
Other operating revenues	1,768	20,180
Net cash used in operating activities	(326,650)	(176,137)
Cash flows from noncapital financing activities:		
State and federal grants	338,608	159,872
Interest	1,719	0
	340,327	159,872
Cash flows from capital and related financing activities:		
Cash payments on capital lease	(7,087)	0
Cash payments for capital acquisitions	(5,362)	0
	(12,449)	0
Net increase (decrease) in cash and cash equivalents	1,228	(16,265)
Cash and cash equivalents at beginning of year	50,437	66,702
Cash and cash equivalents at end of year	\$ 51,665	\$ 50,437
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (323,065)	\$ (202,692)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	2,233	0
(Increase) in assets:		
Marketable securities	(168)	0
Increase (decrease) in liabilities:		
Accounts payable	(12,547)	17,187
Accrued wages and benefits	6,897	9,368
Total adjustments	(3,585)	26,555
Net cash used in operating activities	\$ (326,650)	\$ (176,137)

Non-cash Activity:

During the year, the Academy received a donation of stocks which had a fair value of \$ 10,147 when donated.

The accompanying notes to the financial statements are an integral part of these statements.

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**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001**

NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Edge Academy (the Academy) is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in grades kindergarten through sixth. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under contract with the State of Ohio for a period of five years commencing with the fiscal year ended June 30, 2000.

The Academy operates under the direction of a self-appointing, six-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by 5 non-certified and 13 certificated full-time teaching personnel who provide services to approximately 146 students.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

Basis of Presentation: Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Measurement Focus and Basis of Accounting: The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process: Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with the sponsor. The contract between the Academy and the sponsor, the State Department of Education, does not prescribe a budgetary process for the Academy.

Cash: Cash received by the Academy is maintained in a demand deposit account.

Marketable Securities: In accordance with Governmental Accounting Standards Board (GASB) No. 31, Accounting and Financial Reporting of Certain Investments and for External Investment Pools, the investment in marketable securities is reported at fair value on the balance sheet.

Property and Equipment: Property and equipment are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy maintains a capitalization threshold of \$1,000, while repairs are charged to expense. The Academy does not possess any infrastructure and does not capitalize interest costs.

Depreciation of computer equipment and furniture and fixtures is computed using the straight-line method based on estimated useful life of 5 years. Depreciation expense for the years ended June 30, 2002 and 2001 was \$2,233 and \$0, respectively.

Revenues: The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to be received in equal installments over three years in order to offset start-up costs of the school with final payment being received in fiscal year 2002. The Academy also received an additional \$150,000 in start-up funds in fiscal year 2002 for a total amount received to date of \$300,000. This program is recognized as non-operating revenue on the accompanying financial statements.

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Purchased Services: The Academy purchased services in the amount of \$210,952 and \$109,478 for the years ended June 30, 2002 and 2001, respectively.

This included the following at June 30:

	<u>2002</u>	<u>2001</u>
Consulting fees	\$ 15,139	\$ 24,115
Architect fees	32,000	0
General services	86,024	48,821
Busing and transportation fees	5,809	15,910
Professional development	<u>71,980</u>	<u>20,632</u>
	<u>\$ 210,952</u>	<u>\$ 109,478</u>

Compensated Absences: Each employee of the Academy is entitled to 5 paid sick days each year. Days not used during the year are not carried over to the following year and the Academy does not pay employees for unused sick days. Employees of the Academy do not earn vacation.

NOTE C—DEPOSITS AND INVESTMENTS

Deposits:

At June 30, 2002 and 2001, the carrying amount of the Academy’s deposits was \$51,665 and \$50,437, respectively, and the bank balances were \$115,976 and \$95,164, respectively. \$100,000 of the bank balances were covered by federal depository insurance with the remainder uninsured and uncollateralized.

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE C – DEPOSITS AND INVESTMENTS – (Continued)

Investments:

Marketable securities as of June 30, 2002 consists of Pepsico Inc. stock valued as follows:

	<u>2002</u>
Fair value when donated	\$ 10,147
Fair value at end of year	<u>10,315</u>
Net increase in fair value	<u>\$ 168</u>

The net increase in fair value is included as part of interest income on the Statement of Revenues, Expenses and Changes in Retained Earnings.

NOTE D – STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2002 and 2001 consisted of state and federal grants. All state and federal grants are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

NOTE E – CAPITAL LEASE OBLIGATION

The Academy entered into a capitalized lease agreement for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date of the lease. The following is a schedule of the future minimum lease payments as of June 30, 2002. During the fiscal year, the Academy paid \$7,088 for this lease agreement, which included a \$5,000 downpayment.

<u>Year ending June 30,</u>	<u>Copier</u>
2003	\$ 2,505
2004	<u>417</u>
Total future minimum lease payments	2,922
Less: amount representing interest	<u>(85)</u>
Present value of future minimum lease payments	<u>\$ 2,837</u>

The copier leased by the Academy has a capitalized cost of \$9,770 less accumulated depreciation of \$1,628 at June 30, 2002.

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE F – RISK MANAGEMENT

Property and Liability: The Academy is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the Academy contracted with Philadelphia Insurance Companies for property and general liability insurance with a \$1,000,000 aggregate limit. The general liability insurance was reduced from a \$2,000,000 aggregate limit from the prior year. Settled claims have not exceeded insurance coverage in any of the past 3 years.

Workers' Compensation: The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

Employee Medical, Dental, and Vision Benefits: The Academy has contracted with a private carrier to provide its full-time salaried employees medical/surgical benefits and life insurance. The Academy paid premiums, up to \$250 per month per employee, for this coverage.

NOTE G – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System: The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate of 14% of annual covered payroll, which includes 5.46% and 5.5% for pension obligations for 2002 and 2001, respectively. The contribution requirement of plan members and employees are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$5,242, \$6,995 and \$5,222, respectively. The full amount has been contributed for 2002, 2001 and 2000.

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE G – DEFINED BENEFIT PENSION PLANS – (Continued)

State Teachers Retirement System: The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute at an actuarially determined rate of 14% of annual covered payroll; which includes 9.5% for pension obligations for both 2002 and 2001. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employees. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$41,071, \$31,189 and \$17,142, respectively. At June 30, 2002, 70% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000.

NOTE H – POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the Academy, this amount equaled \$19,455 for fiscal year 2002 and \$14,774 for fiscal year 2001. The balance in the Health Care Reserve Fund for the STRS was \$3.256 billion at June 30, 2001, (latest information available). For the year ended June 30, 2001, the net health care costs paid by the STRS were \$300,772,000 and eligible benefit recipients totaled 102,132.

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE H—POSTEMPLOYMENT BENEFITS — (Continued)

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. Employer contributions to fund health care benefits were 8.54% and 8.45% of covered payroll for 2002 and 2001, respectively. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay pro-rated for partial service credit.

For fiscal year 2002 and 2001, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount contributed to fund health care benefits equaled \$10,128 which includes a surcharge of \$1,929 during the fiscal year 2002, and \$12,511 which includes a surcharge of \$1,861 for fiscal year 2001.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002, (latest information available) were \$182,946,777 and the target level was \$274.4 million. At June 30, 2001, the SERS's net assets available for payment of health care benefits was \$335.2 million, at cost. The number of participants receiving health care benefits was approximately 50,000.

NOTE I— STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “. . .the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient. . .”. The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE J—CONTINGENCIES

Grants: The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2002.

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE J—CONTINGENCIES – (Continued)

Litigation: A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) School program violates the State Constitution and state laws. The effect of this suit, if any on the Academy is not presently determinable.

NOTE K—RENTAL AGREEMENT

As of June 30, 2001, the Academy has entered into a rental agreement with the First Congregational Church of Akron, Inc., for the use of classrooms and office space. This agreement commenced on July 1, 2001 and was on a month-to-month basis. Monthly rent payments for the use of these facilities were \$4,500. This lease terminated February 2002.

The Academy has also entered into a lease agreement with The Akron Community Service Center and Urban League for additional classroom space. This lease commenced on June 16, 2001, and was on a month-to-month basis. Monthly rent payments for the use of these facilities were \$5,500. This lease terminated January 2002.

As of January 2002, the Academy has entered into a five-year lease with Charter Development Foundation, Inc., for the use of classrooms and office space. This lease commenced on February 2002. Monthly payments for the use of these facilities are \$11,000. The Lease expires on December 31, 2006, with no option to renew.

Total rent expense was \$129,400 and \$88,605 for the years ended June 30, 2002 and 2001, respectively.

Future minimum payments as of June 30, 2002 are as follows:

2003	\$ 132,000
2004	132,000
2005	132,000
2006	132,000
2007	<u>66,000</u>
	<u>\$ 594,000</u>

**THE EDGE ACADEMY
SUMMIT COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

NOTE L—RELATED PARTY TRANSACTIONS

During 2001, the Academy hired a Board member to provide accounting and consulting services. A total of \$1,000 was paid to this individual. In addition, the Academy purchased signs from another Board member's business totaling \$450 during 2001.

During January 2002, the Academy entered into a lease with Charter Development Foundation, Inc., a company (Partnership for America's Future) established and managed a Board member. A total of \$116,860 was paid to this foundation for architectural and design fees, and use of classrooms and office space during the year. In addition, the Academy hired a company, which is directed by another board member to install the science lab, provide science lab equipment, develop a curriculum, and train employees on the curriculum. The total paid during 2002 to that company was \$39,328.

NOTE M—OHIO DEPARTMENT OF EDUCATION FTE REVIEWS

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. These reviews resulted in overpayments to the Academy in the amounts of \$3,623 and \$22,060 for the years ended June 30, 2002 and 2001, respectively. These amounts are included in accounts payable on the balance sheets.

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**THE EDGE ACADEMY
SUMMIT COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed through the Ohio Department of Education</i>				
Child Nutrition Cluster:				
School Breakfast Program	133538 05-PU 2001	10.553	\$5,866	\$5,866
	133538 05-PU 2002		7,454	7,454
Total School Breakfast Program			<u>13,320</u>	<u>13,320</u>
National School Lunch Program - Subsidy	133538 LL-P1,P4 2001	10.555	12,121	12,121
	133538 LL-P4 2002		19,890	19,890
Total National School Lunch Program - Subsidy			<u>32,011</u>	<u>32,011</u>
Total U.S. Department of Agriculture - Nutrition Cluster			45,331	45,331
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through the Ohio Department of Education</i>				
Title I, Part A, IASA	133538 C1-S1 2000	84.010	0	5,395
	133538 C1-S1 2001		18,973	32,474
	133538 C1-S1 2002		44,494	56,858
Total Title I, Part A, IASA			<u>63,467</u>	<u>94,727</u>
Special Education Grants to State	133538 6B-SF 2002P	84.027	6,379	4,103
Safe and Drug Free Schools - State Grants	133538 DR-S1 2001	84.186	0	800
Title IV, Part A, ESEA	133538 DR-S1 2002		799	1,100
Total Safe and Drug Free Schools - State Grants			<u>799</u>	<u>1,900</u>
Eisenhower Professional Development State Grants - Title II, Part B	133538 MS-S1 2001	84.281	0	47
	133538 MS-S1 2002		1,741	1,153
Total Eisenhower Professional Development State Grant			<u>1,741</u>	<u>1,200</u>
Charter Schools	133538 CH-S1 2001	84.282	200,000	200,000
Innovative Education Program Strategies	133538 C2-S1 2001	84.298	0	1,309
	133538 C2-S1 2002		1,739	1,739
Total Innovative Education Program Strategies			<u>1,739</u>	<u>3,048</u>
Class Size Reduction	133538 CR-S1 2001	84.340	0	2,705
	133538 CR-S1 2002		6,880	7,975
Total Class Size Reduction			<u>6,880</u>	<u>10,680</u>
Total U.S. Department of Education			<u>326,336</u>	<u>360,989</u>
Totals			<u>\$326,336</u>	<u>\$360,989</u>

See Accompanying Notes to the Schedule of Receipts and Expenditures of Federal Awards.

THE EDGE ACADEMY
SUMMIT COUNTY
FOR THE YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
92 North Union Street
Akron, Ohio 44304

To the Board of Trustees:

We have audited the financial statements of Edge Learning, Inc., d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 27, 2003. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance 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 non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated February 27, 2003.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Edge Leaning, Inc.
d.b.a. The Edge Academy
Independent Accountants' Report on Compliance and on
Internal Control Required by Government Auditing Standards
Page 2

This report is intended for the information and use of the audit committee, management and the Board of Trustees and federal awarding and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 27, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
92 North Union Street
Akron, Ohio 44304

To the Board of Trustees:

Compliance

We have audited the compliance of Edge Learning, Inc., d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Academy's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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 non-compliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy'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. Our audit does not provide a legal determination of the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is discussed in the accompanying Schedule of Findings as item 2002-10977-001.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 27, 2003

**EDGE LEARNING, INC.
d.b.a. THE EDGE ACADEMY
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Charter Schools 84.282
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2002-10977-001

Charter Schools
CFDA 84.282
Pass through entity No. 133538 CH-S1 2001
U.S. Department of Education
Passed through Ohio Department of Education

34 CFR 80.32 provides that, equipment should be used in the program which acquired it or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.”

The Academy expended \$22,000 of its \$200,000 Charter School grant funds on Capital Outlay. The Academy did not develop the requisite control system, maintain equipment records, or prepare a physical inventory of assets.

Failure to abide by federal requirements may subject the Academy to possible liability and/or loss of funding for federal programs.

The Academy should adopt policies and procedures to ensure compliance with Federal requirements. The Academy should maintain proper records for equipment acquired with Federal awards, as well as adequately safeguard equipment. Equipment should be disposed of in accordance with Federal requirements. The Academy should assure the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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Facsimile 614-466-4490

EDGE LEARNING, INC., D.B.A THE EDGE ACADEMY

SUMMIT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 29, 2003**