



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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2003 AND 2002



**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 Directors:

We have audited the Balance Sheet of Edge Learning, Inc., d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) as of June 30, 2003 and 2002, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and Statement 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 audit.

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. Those standards require that we plan and perform the audit 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 audit provides 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 Edge Learning, Inc., d.b.a. The Edge Academy, Summit County, Ohio, as of June 30, 2003 and 2002, 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.

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d.b.a. The Edge Academy
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Independent Accountants' Report
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2004 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, 2003. We previously 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. 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 audit.

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

Betty Montgomery
Auditor of State

March 15, 2004

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY

BALANCE SHEET

	JUNE 30,	
<u>ASSETS</u>	2003	2002
CURRENT ASSETS		
Cash and cash equivalents	\$ 198,644	\$ 51,665
State and federal grants receivable	81,809	43,002
TOTAL CURRENT ASSETS	280,453	94,667
PROPERTY AND EQUIPMENT		
Computer equipment	3,862	3,862
Furniture and equipment	11,270	11,270
Total property and equipment	15,132	15,132
Less: accumulated depreciation	(5,259)	(2,233)
Total property and equipment net of depreciation	9,873	12,899
OTHER ASSETS		
Marketable securities	9,523	10,315
TOTAL ASSETS	\$ 299,849	\$ 117,881
 <u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 22,266	\$ 10,218
Accrued wages and benefits	50,640	40,817
Current portion of capital lease obligation	415	2,422
TOTAL CURRENT LIABILITIES	73,321	53,457
LONG-TERM LIABILITIES		
Capital lease obligation	0	415
EQUITY		
Retained earnings, unreserved	226,528	64,009
TOTAL LIABILITIES AND EQUITY	\$ 299,849	\$ 117,881

The accompanying notes are an integral part of these statements.

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS

	PERIOD ENDED JUNE 30,	
	2003	2002
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 1,197,499	\$ 886,107
Other operating revenues	642	1,937
TOTAL OPERATING REVENUES	1,198,141	888,044
<u>OPERATING EXPENSES</u>		
Salaries	699,310	533,910
Retirement	99,286	73,940
Insurance	24,612	38,148
Rent	121,960	129,400
Purchased services	170,419	210,952
Materials and supplies	169,459	193,515
Utilities	26,968	16,372
Depreciation and amortization	3,026	2,233
Other operating expenses	19,540	12,639
TOTAL OPERATING EXPENSES	1,334,580	1,211,109
OPERATING LOSS	(136,439)	(323,065)
<u>NON-OPERATING REVENUES</u>		
Investment income	1,571	1,551
Unrealized gain (loss) on investments	(792)	168
Interest expense	(83)	(154)
State and federal grants	243,262	362,637
Donations	0	10,147
Travel reimbursement claims award	55,000	0
	298,958	374,349
NET INCOME	162,519	51,284
RETAINED EARNINGS AT BEGINNING OF YEAR	64,009	12,725
RETAINED EARNINGS AT END OF YEAR	\$ 226,528	\$ 64,009

The accompanying notes are an integral part of these statements.

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY

STATEMENTS OF CASH FLOWS

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	PERIOD ENDED JUNE 30,	
	2003	2002
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 1,184,569	\$ 867,670
Cash payments to employees for services and benefits	(793,150)	(600,952)
Cash payments to suppliers for goods and services	(493,370)	(582,497)
Cash payments for other operating expenses	(19,540)	(12,639)
Other operating revenues	642	1,936
Net cash used in operating activities	(120,849)	(326,482)
Cash flows from noncapital financing activities:		
State and federal grants	213,762	338,608
Travel reimbursement claims award	55,000	0
Investment income	1,571	1,551
Net cash provided by noncapital financing activities	270,333	340,159
Cash flows from capital and related financing activities:		
Cash payments on capital lease	(2,505)	(7,087)
Cash payments for capital acquisitions	0	(5,362)
Net cash used in capital and related financing activities	(2,505)	(12,449)
Net increase in cash and cash equivalents	146,979	1,228
Cash and cash equivalents at beginning of year	51,665	50,437
Cash and cash equivalents at end of year	\$ 198,644	\$ 51,665
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (136,439)	\$ (323,065)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	3,026	2,233
Change in assets and liabilities:		
State and federal grants receivable	(9,307)	0
Increase (decrease) in liabilities:		
Accounts payable	12,048	(12,547)
Accrued wages and benefits	9,823	6,897
Total adjustments	15,590	(3,417)
Net cash used in operating activities	\$ (120,849)	\$ (326,482)
Noncash investing activities:		
Decrease (increase) in fair value of investments	\$ 792	\$ (168)

The accompanying notes are an integral part of these statements.

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EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Edge Academy (the Academy) is a not-for-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, five-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 8 non-certified and 14 certificated full-time teaching personnel who provide services to approximately 182 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.

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

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) Statement 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, 2003 and 2002 was \$3,026 and \$2,233, 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.

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

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. Final payment was 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.

Other 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 \$170,419 and \$210,952 for the years ended June 30, 2003 and 2002, respectively.

This includes the following at June 30:

	<u>2003</u>	<u>2002</u>
Consulting fees	\$ 0	\$ 15,139
Architect fees	0	32,000
General services	144,229	86,024
Busing and transportation fees	4,121	5,809
Professional development	<u>22,069</u>	<u>71,980</u>
	<u>\$ 170,419</u>	<u>\$ 210,952</u>

Compensated Absences: Each employee of the Academy is entitled to five 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.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

EDGE LEARNING, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

NOTE C – DEPOSITS AND INVESTMENTS

Deposits:

At June 30, 2003 and 2002, the carrying amount of the Academy’s deposits was \$198,644 and \$51,665, respectively, and the bank balances were \$238,705 and \$115,976, respectively. \$100,000 of the bank balances were covered by the federal depository insurance with the remainder uninsured and uncollateralized.

Investments:

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

	2003	2002
Fair value when donated	\$ 0	\$ 10,147
Fair value at beginning of year	10,315	0
Fair value at end of year	9,523	10,315
Change in fair value	\$ (792)	\$ 168

NOTE D – STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2003 and 2002 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, 2003. The Academy paid \$2,505 and \$7,088, which included a \$5,000 down payment for this lease agreement, for the fiscal years ended June 30, 2003 and 2002, respectively.

	Copier
Year ending June 30,	
2004	\$ 417
Less: amount representing interest	2
Present value of future minimum lease payments	\$ 415

EDGE LEARNING, INC.
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SUMMIT COUNTY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

NOTE E – CAPITAL LEASE OBLIGATION - (CONTINUED)

The copier leased by the Academy has a capitalized cost of \$9,770 less accumulated depreciation of \$3,582 at June 30, 2003.

NOTE F – RISK MANAGEMENT

Property and Liability: The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2003 and 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 three 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 – 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 Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

NOTE G – PENSION PLANS - (CONTINUED)

Plan members are required to contribute 9.0 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14.0 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers 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, 2003, 2002, and 2001, was \$13,971, \$5,242, and \$6,995, respectively; 91.0 percent has been contributed for fiscal year 2003, and 100.0 percent for fiscal years 2002 and 2001.

State Teachers Retirement System: The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a defined benefit (DB) plan, a defined contribution (DC) plan, and a combined plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The combined plan offers features of both the DC plan and the DB plan. In the combined plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC and combined plan members will transfer to the defined benefit plan during their fifth year of membership unless they permanently select the DC or combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB plan into the DC plan or the combined plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

EDGE LEARNING, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

NOTE G – PENSION PLANS - (CONTINUED)

A DB or combined plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14.0 percent; 13.0 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10.0 percent for members and 14.0 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2003, 2002 and 2001 were \$66,915, \$41,071, and \$31,189 respectively; 100 percent has been contributed for fiscal years 2003, 2002 and 2001. Contributions to the DC and combined plans for fiscal year 2003 were \$3,208 made by the Academy and \$5,481 made by the plan members.

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. Both Systems are on a pay-as-you-go basis.

By Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14.0 percent of covered payroll. The retirement board currently allocates employer contributions equal to 1 percent and 4.5 percent of covered payroll to the Health Care Reserve Fund for 2003 and 2002, respectively, from which payments for health care benefits are paid. For the Academy, this amount equaled \$5,147 for fiscal year 2003 and \$28,777 for fiscal year 2002. The balance in the Health Care Reserve Fund for the STRS was \$3.011 billion at June 30, 2002, (latest information available). For the year ended June 30, 2001, the net health care costs paid by the STRS were \$354,697,000 and eligible benefit recipients totaled 105,300.

EDGE LEARNING, INC.
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NOTES TO FINANCIAL STATEMENTS
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(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 75.0 percent of the premium. Employer contributions to fund health care benefits were 5.83 percent and 8.54 percent of covered payroll for 2003 and 2002, respectively. In addition, SERS levies a surcharge to fund health care benefits equal to 14.0 percent of the difference between a minimum pay and the member's pay pro-rated for partial service credit.

For fiscal years 2003 and 2002, the minimum pay was established \$14,500 and \$12,400, respectively. The surcharge, added to the unallocated portion of the 14.0 percent 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 \$12,214 which includes a surcharge of \$2,244 for fiscal year 2003 and \$10,128 which includes a surcharge of \$1,929 during the fiscal year 2002.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent 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, 2002, the SERS's net assets available for payment of health care benefits were \$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.

EDGE LEARNING, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)

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, 2003.

Pending Litigation: A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. 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 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 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 entered into a five-year lease with Charter Development Foundation, Inc., (a related party) for the use of classrooms and office space. This lease commenced in 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.

As of June 2003, the Academy entered into a three-year lease with Charter Development Foundation, Inc. for the use of additional classroom and office space in an adjacent building. This lease commences in August 2003. Monthly payments for the use of these facilities will be \$10,480. This lease expires on July 31, 2006, with no renewal options.

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NOTES TO FINANCIAL STATEMENTS
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NOTE K – RENTAL AGREEMENT - (CONTINUED)

Total rent expense was \$121,960 and \$129,400 for the years ended June 30, 2003 and 2002, respectively.

As of June 2003, the Academy entered into a three-year lease agreement with Toshiba America Information Systems, Inc. for a copier. This lease commences in July 2003 and expires in June 2006. Monthly payment for the use of this equipment will be \$503.

Future minimum payments as of June 30, 2003 are as follows:

2004	\$ 263,796
2005	263,796
2006	253,316
2007	<u>76,480</u>
	<u>\$ 857,388</u>

NOTE L – RELATED PARTY TRANSACTIONS

During January 2002, the Academy entered into a lease with Charter Development Foundation, Inc., a not-for-profit organization (Partnership for America's Future) established and managed by a Board member. A total of \$116,860 was paid to this foundation for the use of classrooms and office space during 2003. During June 2003, the Academy entered into an additional lease with Charter Development Foundation, Inc. commencing on August 1, 2003. In addition, the Academy hired Partnership for America's Future, 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. Total paid to during fiscal year 2003 and 2002 was \$3,275 and \$39,328, respectively.

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. This review revealed an underpayment to the Academy in the amount of \$9,307 for the year ended June 30 2003, and an overpayment to the Academy in the amount of \$3,623 for the year ended June 30, 2002. These amounts are included state and federal grants receivable at June 30, 2003 and in accounts payable at June 30, 2002.

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dba THE EDGE ACADEMY
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NOTES TO FINANCIAL STATEMENTS
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(Continued)

NOTE N – TRAVEL REIMBURSEMENT CLAIMS AWARD

Edge Academy in conjunction with several other community schools in the City of Akron brought a law suite against the Akron public schools for failing to transport students to and from the Community Schools. The Courts ruled in favor of the Community Schools and awarded Edge Academy \$55,000, which is reflected in the financial statements as [Travel Reimbursement Claims Award](#).

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**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 Directors:

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, 2003, and have issued our report thereon dated March 15, 2004. 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Academy in a separate letter dated March 15, 2004.

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 Learning, Inc.
d.b.a. The Edge Academy
Summit County
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 Directors, 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

March 15, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

EDGE LEARNING, INC., dba 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
APRIL 13, 2004**