



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

THE EDGE ACADEMY
SUMMIT COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	13

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REPORT OF INDEPENDENT ACCOUNTANTS

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
292 East Market Street
Akron, Ohio 44308

To the Board of Trustees:

We have audited the Balance Sheet of Edge Learning, Inc., d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) as of and for the year ended June 30, 2001, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and of Cash Flows for the year 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, as of June 30, 2001, and the results of its operations and its cash flows for the year 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 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. That report is 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.

Jim Petro
Auditor of State

January 23, 2002

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THE EDGE ACADEMY
SUMMIT COUNTY

BALANCE SHEET
AS OF JUNE 30, 2001

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$50,437
Federal and state grants receivables	<u>18,973</u>

TOTAL ASSETS	<u><u>\$69,410</u></u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$22,765
Accrued wages and benefits	<u>33,920</u>

TOTAL LIABILITIES	<u>56,685</u>
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FUND EQUITY

Retained Earnings, Unreserved	<u>12,725</u>
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TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$69,410</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

THE EDGE ACADEMY
SUMMIT COUNTY

STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001

OPERATING REVENUES

Foundation payments	\$668,298
Other operating revenues	<u>20,180</u>
TOTAL OPERATING REVENUES	<u>688,478</u>

OPERATING EXPENSES

Salaries	465,081
Retirement	63,907
Insurance	27,959
Rent	88,605
Purchased services	109,478
Materials and supplies	101,195
Utilities	4,793
Other operating expenses	<u>30,152</u>
TOTAL OPERATING EXPENSES	<u>891,170</u>

OPERATING LOSS (202,692)

NON-OPERATING REVENUES

State and federal grants	<u>134,181</u>
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NET LOSS (68,511)

RETAINED EARNINGS AT BEGINNING OF YEAR 81,236

RETAINED EARNINGS AT END OF YEAR \$12,725

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

THE EDGE ACADEMY
SUMMIT COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash received from State of Ohio	\$690,358
Cash payments to suppliers for goods and services	(367,055)
Cash payments to employees for services	(519,620)
Other operating revenues	20,180
	<hr/>
Net cash used in operating activities	(176,137)

Cash Flows from Noncapital Financing Activities

State and federal grants received	159,872
	<hr/>
Net decrease in cash and cash equivalents	(16,265)
Cash and cash equivalents at beginning of year	66,702
	<hr/>
Cash and cash equivalents at end of year	<u>\$50,437</u>

**Reconciliation of Operating Loss to
Net Cash Used in Operating Activities**

Operating loss	<u>(\$202,692)</u>
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**Adjustments to Reconcile Operating Loss
to Net Cash Used in Operating Activities**

Increase in accounts payable	17,187
Increase in accrued wages and benefits	9,368
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Total adjustments	26,555
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Net cash used in operating activities	<u>(\$176,137)</u>

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

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**THE EDGE ACADEMY
SUMMIT COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Edge Academy (the Academy) is nonprofit 501(c)3 corporation established pursuant to Ohio Rev. 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 school. 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, four-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 of Trustees 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 142 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.

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. Equity (i.e., net total assets) is reported as retained earnings. 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.

**THE EDGE ACADEMY
SUMMIT COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

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 school's contract. The contract between the Academy and the State Department of Education does not prescribe a budgetary process for the Academy per Ohio Rev. Code Section 5705.

Cash and Cash Equivalents: The Academy's deposits are valued at cost. Cash equivalents are investments with an original maturity of three months or less.

Fixed Assets and Depreciation: The Academy maintains a capitalization threshold of \$1,000. The Academy did not own any fixed assets over this capitalization threshold at year end.

Revenues: The School 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 3 years in order to offset start-up costs of the school, with the final payment received in fiscal year 2001. This program is recognized as non-operating revenue in the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met. Eligibility requirements include 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.

Federal and state amounts awarded under the above named programs for the 2001 school year totaled \$824,539.

Purchased Services: The Academy purchased services in the amount of \$109,478. This includes \$24,115 in consulting fees, \$48,821 in general services, \$15,910 in busing and transportation fees, and \$20,632 in professional development of teaching staff.

NOTE C – DEPOSITS AND INVESTMENTS

At June 30, 2001, the Academy had a bank balance of \$95,164, all of which was secured by the Federal Depository Insurance Corporation.

NOTE D – RECEIVABLES

Receivables at June 30, 2001, consisted of federal and state grants receivables. All receivables are considered collectible in full, due to the stable condition of federal and state programs.

**THE EDGE ACADEMY
SUMMIT COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

NOTE E – 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 year 2001, the Academy contracted with Philadelphia Insurance Companies for property and general liability insurance with a \$2,000,000 aggregate limit.

Workers' Compensation: The Academy pays the State Worker's 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 \$225 per month per employee, for this coverage.

NOTE F – 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 public employee retirement defined benefit pension plan. SERS provides retirement, annual cost-of-living adjustments, disability, survivor, and health care benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the SERS Board of Trustees. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 % of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and the Academy are established and may be amended by the SERS Board of Trustees. The Academy's required contribution to SERS for the fiscal years ended June 30, 2001 and 2000 were \$17,645 and \$13,172, respectively. The full amount has been contributed for 2001 and 2000.

State Teachers Retirement System: The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement defined benefit pension plan operated by the State of Ohio. STRS provides basic retirement and disability, survivor, health care benefits, and death benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the STRS Board of Trustees. STRS issues a publicly available 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 % of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and the Academy are established by, and may be amended by, the STRS Board of Trustees. The Academy's required contribution to STRS for the fiscal year ended June 30, 2001 and 2000 were \$45,963 and \$25,262, respectively. For 2001, 86% has been contributed, and for 2000 the full amount has been contributed.

**THE EDGE ACADEMY
SUMMIT COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

NOTE G – POSTEMPLOYMENT BENEFITS

School Employees Retirement System: The Ohio Revised Code gives SERS the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service. Members retiring on or after August 1, 1989, with less than 25 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 their premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2000, (the latest information available) the allocation rate was 8.45%. 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 2001, the minimum pay was established as \$12,400.

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, 2000 were \$140,696,340 and the target level was \$211.0 million.

At June 30, 2000, the Retirement System's net assets available for payment of health care benefits was \$252.3 million, at cost. The number of participant's currently receiving health care benefits is approximately 50,000 statewide. The Academy's actual contributions for 2001 fiscal year was \$12,511.

State Teachers Retirement System: The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipient and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be 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 health care benefits are paid. For the fiscal year ended June 30, 2000, the board allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund. The Academy's contributions for the 2001 fiscal year were \$14,774. The balance in the Health Care Reserve Fund was \$3,419 million at June 30, 2000, (the latest information available). For the year ended June 30, 2000, the net health care costs paid by STRS were \$283,137,000. There were 99,011 eligible benefit recipients.

**THE EDGE ACADEMY
SUMMIT COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

NOTE H – STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 23, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such consideration.

As of the date of these financial statements, the Academy is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

NOTE I – 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, 2001.

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 J – RENTAL AGREEMENTS

During fiscal 2001, the Academy rented its classrooms and office space from the First Congregational Church of Akron, Inc. and from The Akron Community Service Center and Urban League (effective June 16, 2001), under month-to-month rental agreements. As of June 2001, aggregate monthly rent under these agreements was \$10,000, and total rent expense for the year was \$88,605. These agreements were extended on a month-to-month basis until the Academy is able to move into its new facilities. See Note L.

**THE EDGE ACADEMY
SUMMIT COUNTY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

NOTE K – RELATED PARTY TRANSACTION

During fiscal year 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 the year.

NOTE L – SUBSEQUENT EVENTS

Lease Agreement: During January 2002, the Academy entered into a five-year lease with Charter Development Foundation, Inc., (a related, non-profit corporation) for the use of classrooms and office space. This lease commenced on the date the Academy moved into the facilities, which was approximately February 1, 2002. Monthly payments for the use of these facilities will be \$11,000.

Accounts Payable: Subsequent to June 30, 2001, the Ohio Department of Education performed a review of its foundation monies distributed to the community schools throughout the State of Ohio. This review resulted in the discovery of an overpayment to the school in the amount of \$22,060. This amount is reflected in accounts payable and reduced Foundation payments.



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

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
292 East Market Street
Akron, Ohio 44308

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, 2001, and have issued our report thereon dated January 23, 2002. 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 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 January 23, 2002.

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
Report of Independent Accountants 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 is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

January 23, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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EDGE LEARNING, INC.

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 9, 2002**