

**THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2023**

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
JUNE 30, 2023

TABLE OF CONTENTS

REPORT ON AUDIT OF FINANCIAL STATEMENTS

INDEPENDENT AUDITOR’S REPORT 1

FINANCIAL STATEMENTS

Statement of Financial Position..... 4

Statement of Activities 5

Statement of Functional Expenses 6

Statement of Cash Flows 7

Notes to Financial Statements 8

SUPPLEMENTAL SCHEDULE

Debt Service Coverage Ratio.....18

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

Independent Auditor’s Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards* 20

Status of Prior Year Findings of Noncompliance with Laws and Regulations and
Internal Control Deficiencies 22

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Independent Auditor's Report

To the Board of Directors of
The Edge School, Inc., dba Edge High School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Edge School, Inc., dba Edge High School (School), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Edge School, Inc., dba Edge High School as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Edge School, Inc., dba Edge High School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Edge School, Inc., dba Edge High School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Edge School, Inc., dba Edge High School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Edge School, Inc., dba Edge High School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of the debt service coverage ratio (as required by the Industrial Development Authority of the County of Pima) on page 18, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Board of Directors of
The Edge School, Inc., dba Edge High School
Page Two

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2023, on our consideration of The Edge School, Inc., dba Edge High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Edge School, Inc., dba Edge High School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Edge School, Inc., dba Edge High School's internal control over financial reporting and compliance.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
November 7, 2023

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

Current Assets	
Cash (including restricted cash of \$126,238)	\$ 387,895
Cash held by trustee (including restricted cash of \$79,934)	154,935
Due from governmental entities	61,206
Prepays	5,834
Accounts receivable	13
Total Current Assets	609,883
 Noncurrent Assets	
Security deposits	5,413
Property and equipment (net of accumulated depreciation of \$1,701,411)	2,562,349
Operating Lease - Right of Use Asset	145,411
Total Noncurrent Assets	2,713,173
 Total Assets	 \$ 3,323,056

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable and other accrued expenses	\$ 23,616
Credit card payable	5,410
Unearned revenue - current portion	8,342
Accrued payroll	50,048
Due to students	1,564
Compensated absences payable	45,061
Short-term lease liability	69,943
Note payable - current portion	145,000
Total Current Liabilities	348,984
 Noncurrent Liabilities	
Unearned revenue - less current portion	277,127
Long-term lease liability	75,468
Note payable	
Principal amount	3,095,000
Less unamortized debt issuance costs	170,893
Note payable less unamortized debt issuance costs	2,924,107
 Total Noncurrent liabilities	 3,276,702
 Total Liabilities	 3,625,686
 Net Assets	
Without donor restrictions	(335,309)
With donor restrictions	
Extracurricular activities	11,579
Strategies to increase graduation rate	11,735
Field trips	2,500
Scholarships	6,865
Total Net Assets (Deficit)	(302,630)
 Total Liabilities and Net Assets	 \$ 3,323,056

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

**THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Changes in Net Assets Without Donor Restrictions

Revenues

State aid	\$ 1,702,607
Federal grants	604,940
Classroom site fund	170,352
Instructional improvement fund	14,030
Local grants	10,000
Rental revenue	8,342
Interest	51
Contributions	42,810
Other	322
	<hr/>
Total revenues	2,553,454

Net assets released from restrictions

Satisfaction of program restrictions	<hr/> 11,076
Total revenues and net assets released from restrictions	2,564,530

Expenses

Program services	
Instruction	1,278,856
Support services - students and staff	359,236
Support services - instructional staff	69,752
Support services - school administration	301,368
Operation and maintenance of plant services	195,701
Management and general	
Support services - administration	22,964
Support services - business	163,642
Operation and maintenance of plant services	15,167
	<hr/>
Total expenses	2,406,686

Increase in net assets without donor restrictions	<hr/> 157,844
---	---------------

Changes in Net Assets with Donor Restrictions

Contributions	13,546
Federal grants	11,735
Net assets released from restrictions	<hr/> (11,076)
Increase in Net Assets with Donor Restrictions	<hr/> 14,205

Increase in Net Assets	172,049
-------------------------------	----------------

Net Assets (Deficit), July 1, 2022	<hr/>(474,679)
---	-----------------------

Net Assets (Deficit), June 30, 2023	<u><u>\$ (302,630)</u></u>
--	-----------------------------------

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

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 1,179,815	\$ 74,109	\$ 1,253,924
Benefits	83,813	5,873	89,686
Pension plan contributions	143,584	9,019	152,603
Payroll taxes	90,256	5,669	95,925
Accounting	-	10,790	10,790
Legal	-	11,400	11,400
Office expenses	101,241	776	102,017
Facility rental	73,999	-	73,999
Travel	5,321	59	5,380
Interest	187,957	10,729	198,686
Depreciation	107,745	51	107,796
Insurance	14,204	3,551	17,755
Telephone/Internet	23,682	5,920	29,602
Utilities	25,254	5,696	30,950
Other purchased services	167,316	57,341	224,657
Miscellaneous	726	790	1,516
TOTAL	<u>\$ 2,204,913</u>	<u>\$ 201,773</u>	<u>\$ 2,406,686</u>

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

**THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023**

Cash flows from operating activities:	
Increase in net assets	\$ 172,049
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	107,796
Non-cash lease expense	(1,488)
Increase in due from governmental entities	(57,308)
Decrease in prepaids	1,762
Decrease in accounts payable and other	(20,379)
Increase in unearned revenue	31,490
Decrease in due to state	(19,317)
Decrease in due to students	(417)
Increase in compensated absences payable	641
Decrease in accrued payroll	<u>(3,221)</u>
Net cash provided by operating activities	<u>211,608</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(11,908)</u>
Net cash used for investing activities	<u>(11,908)</u>
Cash flows from financing activities:	
Net borrowing on credit card payable	(3,489)
Repayments on note payable	<u>(119,051)</u>
Net cash used by financing activities	<u>(122,540)</u>
Net increase in cash and cash equivalents	77,160
Cash and cash equivalents, July 1, 2022	<u>465,670</u>
Cash and cash equivalents, June 30, 2023	<u>\$ 542,830</u>

Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position

Cash	\$ 336,658
Cash - restricted	206,172
Total cash and cash equivalents	<u>542,830</u>

Supplemental data:

Interest and fees paid on note and line of credit	\$ 198,686
---	------------

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

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Edge School, Inc. (the School), dba Edge High School, is an Arizona not-for-profit organization formed in fiscal year 1997-98. The Arizona charter schools are intended to provide additional academic choices for parents and students that will improve pupil achievement. Charter school statutes support flexibility and innovation in key areas of operations and organizational structures, including scheduling, curriculum, and instructional methodologies. The significant accounting policies are described below.

A. Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

B. Basis of Presentation

The School presents these financial statements in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, Not-for-Profit Entities, Presentation of Financial Statements. This codification establishes standards for general purpose external financial statements provided by a not-for-profit organization. Those financial statements include a statement of financial position, a statement of activities, and a statement of cash flows.

Under this codification, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as without donor restrictions or with donor restrictions. Net assets without donor restrictions are net assets that are not subject to or are no longer subject to donor-imposed restrictions. Net assets with donor restrictions are net assets whose use is limited by donor-imposed stipulations, either temporarily or permanently, until either the purpose of the donor restrictions is accomplished or the time restriction ends. Generally, the donors of net assets with permanent restrictions allow the School to use all or part of the income earned on related investments for general or specific purposes.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Revenue Recognition for Program Services

The School recognizes revenue that originates from State law or taxes approved by local voters to provide certain funding to schools as an exchange transaction. As this funding is involuntary, state aid and other state assistance (including classroom site and instructional improvement funds) does not meet the definition of a contribution. The Arizona Department of Education (ADE) funding formulas are based on the average daily enrollment (student count) through the School's first 100 days. The School submits its enrollment data to the ADE at least every 20 days of the school year, and the ADE pays the School monthly based on a prorated portion of the annual calculated funding amount. The School satisfies its performance obligation by providing education to the students throughout the school year and recognizes the revenue as the education is provided over the period of the school year. Revenue from the ADE is not typically received in advance. If the revenue received exceeds the final ADE annual calculated funding amount, the excess amount is recorded as a liability-due to State.

All contributions, including grants, are considered to be available for use without donor restriction unless specifically restricted by the donor/grantee. Amounts received that are designated for future periods or restricted by the donor/grantee for specific purposes are reported as support that increases net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the School reports that support as without donor restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

D. Expense Allocation

The financial statements report certain expenses that are attributable to one or more program or supporting functions of the School. These expenses are allocated based on square footage or estimates of personnel time and effort, as applicable.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Fair Value

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The School's financial instruments are cash and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. Donated Equipment and Services

Donated equipment is reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605-25-16, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the criteria for recognition are not met.

H. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

I. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the School to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The School has not experienced any losses on its cash equivalents. The School does not maintain any investments.

J. Prepaid Items

Payments for services that will benefit periods beyond fiscal year end are recorded as prepaid items.

K. Leases

The School has elected to not recognize lease assets and liabilities for short-term leases with a term of 12-months or less, for all underlying asset classes. The lease expense for such leases are recognized on a straight-line bases over the lease term.

L. Property and Equipment

All acquisitions of land, buildings and improvements with a cost in excess of \$3,000 or vehicles, furniture and equipment with a cost in excess of \$500 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which is three to fifty years for all assets. Depreciation and amortization expense for the current fiscal year was \$107,796.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

M. Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Arizona Revised Statutes (A.R.S.). However, income from certain activities not directly related to the School's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The School's Form 990, Return of Organization Exempt from Income Taxes, is generally subject to examination by the Internal Revenue Service for three years after the date filed. The School's Form 990T, Exempt Organization Business Income Tax Return, is generally subject to examination by the Internal Revenue Service for six years after the date filed. The School has not taken any uncertain tax positions and, therefore, has no policy for evaluating them.

N. Compensated Absences

The School's vacation policy provides for granting vacation with pay. Twelve-month personnel earn between 7.5 and 15 days of vacation during the fiscal year, depending on the employee's full-time equivalency. All accrued vacation leave is paid at the employee's daily rate of pay. Employees that have accumulated 59 or more hours as of June 30 may request payment in cash up to 75% of the accumulated leave. At June 30, 2023, the School has recorded \$45,061 as compensated absences payable on the statement of financial position.

O. Subsequent Events

Subsequent events have been evaluated through November 7, 2023, and the financial statements were available to be issued on November 7, 2023.

NOTE 2 – CASH

The captions and amounts of cash on the statement of financial position consist of the following.

Cash in bank-not restricted	\$ 261,657
Cash with Trustee-not restricted	75,001
Restricted cash:	
Cash held by trustee	79,934
Classroom site fund	100,844
Instructional improvement fund	6,950
Extracurricular tax credit	11,579
Scholarship funds	6,865
Total	<u>\$ 542,830</u>

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 – CASH (Cont'd)

Restricted cash held by trustee of \$79,934 represents monies on deposit that are for the payment of taxes, insurance and bond expenses (including principal and interest). The amount is invested per an agreement with US Bank. Once the outstanding balances on the loans are less than the balance of the restricted cash account, the loans are paid off using the restricted cash held by trustee. Cash held by trustee is uninsured and uncollateralized.

Extracurricular tax credit contributions made to the School of \$11,579, but not expended as of June 30, 2023 are held for future use of school extracurricular activities.

At June 30, 2023, the School has Classroom Site Fund restricted cash totaling \$100,844. The Arizona Department of Education (ADE) administers and allocates Classroom Site Fund (CSF) funds to the School based on student count and other factors specified by statute. The CSF funds are restricted to be allocated towards teacher compensation, including a base pay and performance component, dropout prevention and student support services. The School also has Instructional Improvement Fund restricted cash totaling \$6,950. Instructional Improvement Fund monies are restricted for future spending on teacher salary increases, classroom size reduction, dropout prevention, and instructional improvement programs.

Scholarship fund contributions made to the School of \$6,865 but not expended as of June 30, 2023, are held for future use of providing scholarships to students.

At year end, the carrying amount of the School's deposits (cash in bank) was \$387,895, and the bank balance was \$387,895. Of the bank balance, \$250,000 was insured by federal depository insurance. The remaining amount of \$137,895 is uninsured and uncollateralized.

NOTE 3 – DUE FROM GOVERNMENTAL ENTITIES

The captions and amounts of due from governmental agencies on the statement of financial position consist of \$61,206 in outstanding Federal grants.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Land	\$ 420,000
Leasehold improvements	131,101
Buildings and improvements	3,527,824
Furniture and equipment	177,335
Construction in progress	<u>7,500</u>
 Total property and equipment	 4,263,760
 Less accumulated depreciation	 <u>1,701,411</u>
 Net property and equipment	 <u>\$2,562,349</u>

The School’s land and building at the Himmel Park site are pledged as collateral for the School’s note payable.

NOTE 5 – CONSTRUCTION IN PROGRESS

During the year ended June 30, 2023, the School began a project related to the installation of solar panels at one of their school sites. The School has entered into construction contracts totaling \$180,135. As of June 30, 2023, \$7,500 of the construction project was completed, and \$172,635 remained to be completed on the project. The School was awarded a grant to cover the costs of the construction.

NOTE 6 – NOTE PAYABLE

In October 2007, for the sole purpose of a loan to the school for the acquisition, construction and improvement of the school facilities at the Himmel Park site, the Industrial Development Authority (IDA) of the County of Pima issued \$4,630,000 in education revenue bonds. The School is obligated to the IDA under a Loan Agreement and promissory note to make payments sufficient to pay the principal, premium, and interest on its loan; and to pay its share of ongoing costs.

The School has pledged substantially all of its revenues in order to meet its obligations under the Loan Agreement and promissory note. The primary revenues of the School are state equalization assistance, which are statutorily owed by the State to the School based on student enrollment. The School has irrevocably directed the State to make its monthly state equalization payments directly to the trustee of the bonds so long as any of its obligations under the Loan Agreement remain outstanding and unsatisfied. The trustee of the bonds calculates and retains the amount due under the Loan Agreement and remits the remaining state equalization payments to the School.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6 – NOTE PAYABLE (Cont'd)

Effective August 1, 2021, the IDA and the School entered into an agreement to reissue the remaining \$3,505,000 in aggregate principal of the 2007 bonds. The Loan Agreement Supplement was done for the purpose of interest rate reduction. The rate on the reissued bonds is 5.5%, which is a reduction from the 6.5% rate on the original 2007 bonds. The term of the loan has not changed, and the maturity date remains July 1, 2037.

Debt Issuance Costs and Bond Discount: The School incurred issuance costs of \$223,724 related to the issuance of bonds by the IDA in October 2007. Additionally, the 2007 bonds were sold at a discount of \$138,900. The School incurred \$25,000 of issuance costs related to the reissued bonds in 2021. The issuance costs and discount reduced the loan proceeds received, and they impact the effective interest rate and interest expense, related to the bonds issued by the IDA. The effective interest rate is 6.22%.

The outstanding note payable to the IDA is as follows:

Tax exempt note payable to the IDA in monthly installments through July 2037; with interest of 5.5%, and an effective annual rate of 6.22%. Secured by land and buildings.	<u>\$ 3,240,000</u>
Total note payable to IDA	3,240,000
Less: unamortized debt issuance costs	113,851
Less: unamortized discount on IDA bonds	<u>57,042</u>
Note payable to IDA, net of discount and debt issue costs	3,069,107
Less current portion	<u>145,000</u>
Note payable to IDA, long-term portion	<u><u>\$ 2,924,107</u></u>

Interest expense under the promissory notes for the year ended June 30, 2023 was \$198,686.

Future maturities required under the note at June 30, 2023, are summarized as follows.

Fiscal year ending:	<u>Maturities</u>
2024	\$ 145,000
2025	155,000
2026	165,000
2027	175,000
2028	190,000
Thereafter	<u>2,410,000</u>
Total	<u><u>\$ 3,240,000</u></u>

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 7 – LEASES

Operating Leases – The School leases classrooms under the provisions of a lease agreement classified as an operating lease. Effective June 2023, the school signed a 12-month amendment to the lease with an option to renew for one additional 12-month period. The extensions/renewals have a 2% increase in rent each year. The extension/renewal options are recognized in the valuation of the right-of-use asset and lease liabilities, as management expects to extend/renew the lease.

Lease cost and other information regarding the leases as of June 30, 2023, are as follows:

Lease cost:	
Operating lease cost	\$ 75,260
Total lease cost	75,260
Other information:	
Weighted-average remaining lease term - operating leases	2.0 years
Weighted-average discount rate - operating leases	6.00%

The lease discount rate is 6.00% and is based on the borrowing interest rate obtained on other debt. The future minimum lease payments under the noncancelable operating leases are:

<u>Fiscal year ending June 30:</u>	
2024	\$ 76,765
2025	77,944
Total minimum lease payments	154,709
Less amount based on discount rate	9,298
Present value of net minimum lease payments	145,411
Less current portion	69,943
Operating lease liability, long-term	\$ 75,468

NOTE 8 – RETIREMENT PLAN

Plan Description – School employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 – RETIREMENT PLAN (Cont’d)

Benefits provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit. Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s and employer’s contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2023, statute required active ASRS members to contribute at the actuarially determined rate of 12.17 percent (12.03 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and statute required the School to contribute at the actuarially determined rate of 12.17 percent (11.92 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll. In addition, the School was required by statute to contribute at the actuarially determined rate of 9.68 percent (9.62 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the School in positions that would typically be filled by an employee who contributes to the ASRS.

The School’s contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

	Retirement and Health Benefit Supplement Fund	Long-Term Disability
Year ending June 30:		
2023	\$ 155,756	\$ 1,803
2022	144,707	2,196
2021	142,259	2,166

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the School’s financial assets as of June 30, 2023, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or are assets held for other uses.

Financial Assets	
Cash and cash equivalents	\$ 542,830
Due from governmental entities	<u>61,206</u>
Financial assets at year-end:	<u>\$ 604,036</u>
Less those unavailable for general expenditure within one year due to:	
Restricted cash held by trustee (Note 2)	\$ 79,934
Cash restricted for Classroom Site Fund (Note 2)	100,844
Cash restricted for Instructional Improvement Fund (Note 2)	6,950
Cash restricted for extracurricular activities (Note 2)	11,579
Cash restricted for student scholarships (Note 2)	<u>6,865</u>
Financial assets available to meet cash need for general expenditures within one year:	<u>\$ 397,864</u>

The School structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the school has a goal to maintain financial assets on hand to meet 30 days of normal operating expenses.

NOTE 10 – CONCENTRATIONS

The School’s revenue sources are based primarily on state financial assistance subject to availability of funds and the School’s compliance with state laws and regulations.

NOTE 11 – COMPLIANCE

The School’s compliance with certain laws and regulations is subject to review by the State of Arizona, Federal agencies, and the Arizona State Board for Charter Schools. Such reviews could result in a reduction of State equalization assistance or Federal grants. The amount, if any, of required reductions cannot be determined at this time.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent to June 30, 2023, the School was selected as a recipient of a local grant to replace twelve air conditioning units that were installed during October 2023. The total cost of the donated units is approximately \$100,000.

THE EDGE SCHOOL, INC.
dba EDGE HIGH SCHOOL
DEBT SERVICE COVERAGE RATIO
The Industrial Development Authority of the County of Pima,
Education Revenue Bonds (The Edge School, Inc. Project), Series 2007
For the fiscal year ended June 30, 2023

Total unrestricted revenues and other support *	\$	1,764,132
Total expenses *	\$	1,615,726
Less:		
Depreciation		(107,796)
Interest expense for note		<u>(198,686)</u>
		1,309,244
Net income available for debt service		454,888
Maximum annual debt service - fiscal year 2035-36		342,244
Debt service coverage ratio		1.33

* Does not include federal grants, extracurricular activities contributions, classroom site fund and instructional improvement funds as these are not permitted by law for the use or payment of debt.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

THIS PAGE INTENTIONALLY LEFT BLANK

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Directors of
The Edge School, Inc., dba Edge High School

We have audited, in accordance with the 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, the financial statements of The Edge School, Inc., dba Edge High School (School), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Edge School, Inc., dba Edge High School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Edge School, Inc., dba Edge High School's internal control. Accordingly, we do not express an opinion on the effectiveness of The Edge School, Inc., dba Edge High School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Edge School, Inc., dba Edge High School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
November 7, 2023

**THE EDGE SCHOOL, INC., DBA EDGE HIGH SCHOOL
STATUS OF PRIOR YEAR FINDINGS OF NONCOMPLIANCE WITH
LAWS AND REGULATIONS AND INTERNAL CONTROL DEFICIENCIES
JUNE 30, 2023**

We have reviewed our prior report dated November 8, 2022, and the School had no findings of noncompliance or internal control deficiencies to take corrective action on.