



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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2006-2005



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

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 accompanying financial statements of Edge Learning, Inc. d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Edge Learning, Inc. d.b.a. The Edge Academy, Summit County, Ohio, as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2007, 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 grant agreements and other matters for the years ended June 30, 2006 and 2005. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Summit County
Independent Accountants' Report
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Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

June 14, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

EDGE LEARNING, INC. DBA THE EDGE ACADEMY

FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

The Management's Discussion and Analysis of the Edge Learning, Inc.'s (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal years ended June 30, 2006 and 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2006 and 2005 are as follows:

- In total, net assets were \$263,644 and \$171,839 at June 30, 2006 and 2005, respectively.
- The Academy had operating revenues of \$1,756,472 and \$1,877,730 and operating expenses of \$2,136,593 and \$2,250,755 for fiscal years 2006 and 2005, respectively. The Academy also received \$8,137 and \$3,199 in investment revenue, \$1,308 and \$11 in unrealized gain on investments, and \$462,481 and \$476,448 in federal and state grants during fiscal years 2006 and 2005, respectively. Total change in net assets was an increase of \$91,805 and \$106,633 for the fiscal years 2006 and 2005, respectively.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the questions, "How did we do financially during 2006 and 2005?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statements of revenues, expenses and change in net assets report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this changes may be the result of many factors, some financial, some not. These statements can be found on page 8 of this report. The statement of cash flows can be found on page 9.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

**EDGE LEARNING, INC.
DBA THE EDGE ACADEMY**

FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

The table below provides a summary of the Academy's net assets for fiscal years 2006 and 2005.

	<u>Net Assets</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$ 357,523	\$ 309,800
Capital assets, net	32,875	2,462
Other assets	<u>12,849</u>	<u>11,541</u>
TOTAL ASSETS	<u>403,247</u>	<u>323,803</u>
<u>LIABILITIES</u>		
Current Liabilities	<u>139,603</u>	<u>151,964</u>
TOTAL LIABILITIES	<u>139,603</u>	<u>151,964</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	32,875	2,462
Unrestricted	<u>230,769</u>	<u>169,377</u>
TOTAL NET ASSETS	<u>\$ 263,644</u>	<u>\$ 171,839</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006 and 2005, the Academy's assets exceeded liabilities by \$263,644 and \$171,839, respectively.

Capital assets represented 8.15% and .76% of total assets at June 30, 2006 and 2005, respectively. Capital assets consisted of a computer, office equipment, and land improvements. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

EDGE LEARNING, INC. DBA THE EDGE ACADEMY

FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	<u>2006</u>	<u>2005</u>
<u>Change in Net Assets</u>		
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 1,754,857	\$ 1,869,338
Other operating revenues	<u>1,615</u>	<u>8,392</u>
TOTAL OPERATING REVENUES	<u>1,756,472</u>	<u>1,877,730</u>
<u>OPERATING EXPENSES</u>		
Salaries	1,094,423	1,157,191
Retirement	151,663	158,311
Insurance	50,019	28,344
Rent	258,960	260,554
Purchased services	281,685	305,370
Materials and supplies	204,212	222,796
Utilities	60,451	52,358
Depreciation and amortization	2,609	1,371
Other operating expenses	<u>32,571</u>	<u>64,460</u>
TOTAL OPERATING EXPENSES	<u>2,136,593</u>	<u>2,250,755</u>
OPERATING LOSS	<u>(380,121)</u>	<u>(373,025)</u>
<u>NON-OPERATING REVENUES</u>		
Investment income	8,137	3,199
Unrealized gain on investments	1,308	11
State and federal grants	<u>462,481</u>	<u>476,448</u>
	<u>471,926</u>	<u>479,658</u>
CHANGE IN NET ASSETS	<u>\$ 91,805</u>	<u>\$ 106,633</u>

Economic conditions and outlook

The Academy relies on the State Foundation Funds as well as federal and state grants to provide monies necessary to carry on the activities of the Academy.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and inventors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Dudas, The Edge Academy, 92 North Union Street, Akron, OH 44304.

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STATEMENTS OF NET ASSETS

**EDGE LEARNING, INC.
dba THE EDGE ACADEMY
JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 303,655	\$ 264,687
State and federal grants receivable	53,868	45,113
TOTAL CURRENT ASSETS	<u>357,523</u>	<u>309,800</u>
PROPERTY AND EQUIPMENT		
Computer equipment	3,862	3,862
Furniture and equipment	2,994	2,994
Land improvements	33,023	0
	<u>39,879</u>	<u>6,856</u>
Less: accumulated depreciation	(7,004)	(4,394)
	<u>32,875</u>	<u>2,462</u>
OTHER ASSETS		
Marketable securities	12,849	11,541
TOTAL ASSETS	<u>\$ 403,247</u>	<u>\$ 323,803</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 20,880	\$ 5,448
Accrued wages and benefits	115,482	132,110
Deferred revenue	3,241	14,406
TOTAL CURRENT LIABILITIES	<u>139,603</u>	<u>151,964</u>
NET ASSETS		
Invested in capital assets, net of related debt	32,875	2,462
Unrestricted net assets	230,769	169,377
TOTAL NET ASSETS	<u>263,644</u>	<u>171,839</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 403,247</u>	<u>\$ 323,803</u>

See accompanying notes to the financial statements.

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

**EDGE LEARNING, INC.
dba THE EDGE ACADEMY**

	Years ended June 30,	
	2006	2005
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 1,754,857	\$ 1,869,338
Other operating revenues	1,615	8,392
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	1,756,472	1,877,730
	<hr/>	<hr/>
<u>OPERATING EXPENSES</u>		
Salaries	1,094,423	1,157,191
Retirement	151,663	158,311
Insurance	50,019	28,344
Rent	258,960	260,554
Purchased services	281,685	305,370
Materials and supplies	204,212	222,796
Utilities	60,451	52,358
Depreciation and amortization	2,609	1,371
Other operating expenses	32,571	64,460
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TOTAL OPERATING EXPENSES	2,136,593	2,250,755
	<hr/>	<hr/>
OPERATING LOSS	(380,121)	(373,025)
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<u>NON-OPERATING REVENUES</u>		
Investment income	8,137	3,199
Unrealized gain on investments	1,308	11
State and federal grants	462,481	476,448
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TOTAL NON-OPERATING REVENUES	471,926	479,658
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CHANGE IN NET ASSETS	91,805	106,633
	<hr/>	<hr/>
NET ASSETS AT BEGINNING OF YEAR	171,839	65,206
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR	\$ 263,644	\$ 171,839
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See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

EDGE LEARNING, INC. dba THE EDGE ACADEMY

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>Years ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 1,743,693	\$ 1,874,992
Cash payments to employees for services and benefits	(1,315,335)	(1,326,984)
Cash payments to suppliers for goods and services	(787,274)	(871,108)
Cash payments for other operating expenses	(32,571)	(64,540)
Other operating revenues	1,615	8,392
Net cash used in operating activities	<u>(389,872)</u>	<u>(379,248)</u>
Cash flows from noncapital financing activities:		
State and federal grants	453,726	488,923
Investment income	8,137	3,251
Net cash provided by noncapital financing activities	<u>461,863</u>	<u>492,174</u>
Cash flows from capital and related financing activities:		
Cash payments for capital acquisitions	<u>(33,023)</u>	<u>0</u>
Net cash used in capital and related financing activities	<u>(33,023)</u>	<u>0</u>
Net increase in cash and cash equivalents	38,968	112,926
Cash and cash equivalents at beginning of year	<u>264,687</u>	<u>151,761</u>
Cash and cash equivalents at end of year	<u>\$ 303,655</u>	<u>\$ 264,687</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (380,121)</u>	<u>\$ (373,025)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	2,609	1,371
Increase (decrease) in liabilities:		
Accounts payable	15,433	(27,508)
Accrued wages and benefits	(16,628)	14,260
Deferred revenue	(11,165)	5,654
Total adjustments	<u>(9,751)</u>	<u>(6,223)</u>
Net cash used in operating activities	<u>\$ (389,872)</u>	<u>\$ (379,248)</u>

See accompanying notes to the financial statements.

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NOTES TO FINANCIAL STATEMENTS

EDGE LEARNING, INC. dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

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 eighth. 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 a year to year contract with the Lucas County Educational Service Center for a period of five years commencing with the fiscal year ended June 30, 2004.

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 3 non-certified and 22 certified full-time teaching personnel who provide services to approximately 228 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 Academy does not apply FASB statements and interpretations issued after November 30, 1989. 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.

Operating revenues are those revenues that are generated directly for the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Measurement Focus and Basis of Accounting: Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Statement of revenues, expenses and changes in net assets 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, furniture and fixtures, and land improvements is computed using the straight-line method based on estimated useful life of 5 to 20 years. Depreciation expense for the years ended June 30, 2006 and 2005 was \$2,609 and \$1,371, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

EDGE LEARNING, INC. dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

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.

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 \$281,685 and \$305,370 for the years ended June 30, 2006 and 2005, respectively.

This includes the following at June 30:

	<u>2006</u>	<u>2005</u>
Consulting fees	\$ 2,586	\$ 0
Busing and transportation fees	5,624	6,115
Professional development	20,231	52,493
School psychologist	20,225	26,414
Speech and hearing services	30,254	27,907
Professional and legal	31,879	56,850
Maintenance services	49,179	43,191
Other general services	<u>121,707</u>	<u>92,400</u>
	<u>\$ 281,685</u>	<u>\$ 305,370</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.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitation imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Intergovernmental Revenue: The Academy currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the Special Education grant and the EMIS grant. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues 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 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 on a reimbursement basis.

Accrued Liabilities: The Academy has recognized certain expenses due but unpaid as of June 30, 2006 and 2005. These expenses are reported as accrued liabilities in the accompanying financial statements.

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.

NOTE C—DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2006 and 2005, the carrying amount of the Academy's deposits was \$303,655 and \$264,687, respectively, and the bank balances were \$364,508 and \$280,134, 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:

	<u>2006</u>	<u>2005</u>
Fair value when donated	<u>\$ 10,147</u>	<u>\$ 10,147</u>
Fair value at beginning of year	\$ 11,541	\$ 11,530
Fair value at end of year	<u>12,849</u>	<u>11,541</u>
Change in fair value	<u>\$ 1,308</u>	<u>\$ 11</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

**EDGE LEARNING, INC.
dba THE EDGE ACADEMY**

JUNE 30, 2006 AND 2005

NOTE D—STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2006 and 2005 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—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 2006 and 2005, the Academy contracted with Philadelphia Insurance Companies for property and general liability insurance with a \$3,000,000 aggregate limit. 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 \$263 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 (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, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

EDGE LEARNING, INC. dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

NOTE F – DEFINED BENEFIT PENSION PLANS – CONTINUED

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 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 years 2006 and 2005, 10.58 percent and 10.57 percent of annual covered salary were the portions used to fund pension obligations, respectively. 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$21,434, \$31,891, and \$18,164, respectively; 92.9 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

State Teachers Retirement System of Ohio

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 STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 divided by 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.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC. dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

NOTE F – DEFINED BENEFIT PENSION PLANS – CONTINUED

A DB or Combined Plan member with five or more years of 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 years ended June 30, 2006 and 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 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 percent for members and 14 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 STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$121,301, \$112,888, and \$88,602, respectively; 82.3 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 and 2005 are available upon request.

NOTE G – POST EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2006 and 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$9,331 and \$8,684 for fiscal year 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

EDGE LEARNING, INC. dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

NOTE G – POST EMPLOYMENT BENEFITS - CONTINUED

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal years 2006 and 2005, the minimum pay was established at \$35,800 and \$27,400, respectively. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 and 2005 fiscal years equaled \$6,928 and \$14,142, respectively.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE H—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 funding and its financial operations.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC. dba THE EDGE ACADEMY

JUNE 30, 2006 AND 2005

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, 2006.

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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the stated public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the Academy is not presently determinable.

NOTE J—RENTAL AGREEMENT

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 commenced in August 2003. Monthly payments for the use of these facilities are \$10,480. This lease expires on July 31, 2006, with no renewal options.

Total rent expense was \$257,760 and \$257,760 for the years ended June 30, 2006 and 2005, 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 commenced in July 2003, expiring in June 2006. Monthly payment for the use of this equipment is \$503.

Future minimum payments as of June 30, 2006 are as follows:

2007	<u>\$ 76,480</u>
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

**EDGE LEARNING, INC.
dba THE EDGE ACADEMY**

JUNE 30, 2006 AND 2005

NOTE K—RELATED PARTY TRANSACTIONS

The Academy has several leases with Charter Development Foundation, Inc., a not-for-profit organization established and managed by a Board member. (See Note J.) Also provided were computer training, computer software, and reimbursements for expenses paid on behalf of Edge Academy. Total non-rent related payments to Charter Development Foundation, Inc. were \$2,306 and \$7,386 in 2006 and 2005, respectively.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
92 North Union Street
Akron, Ohio 44204

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 years ended June 30, 2006 and 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated June 14, 2007. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated June 14, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated June 14, 2007, we reported other matters related to noncompliance we deemed immaterial.

Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

June 14, 2007



Mary Taylor, CPA
Auditor of State

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
JULY 5, 2007**