



EDGE LEARNING, INC.

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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Assets.....	7
Statements of Revenues, Expenses, and Changes in Net Assets.....	8
Statements of Cash Flows	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic 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, 2004 and 2003, as listed in the Table of Contents. 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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edge Learning, Inc. d.b.a. The Edge Academy, Summit County, Ohio, as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2005, 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 year ended June 30, 2004. We previously issued a report dated March 15, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. While we did not opine on the internal control over financial reporting or on compliance, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read them in conjunction with this report in assessing the results of our audit.

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Edge Learning, Inc.
d.b.a. The Edge Academy
Summit County
Independent Accountants' Report
Page 2

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

As management of Edge Academy, Inc. (the "Academy"), we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- With respect to the statement of net assets, current assets decreased by \$71,051 or 25% primarily due to a decrease in state and federal grants receivables of \$24,168 or 30%. This decrease is attributed to less state and federal grant funding being owed to the Academy at June 30, 2004.
- The Academy has a cash balance of \$151,761, which is \$46,883, less than the prior year, primarily due to an increase in expenses in 2004.
- The Academy has an intergovernmental receivable of \$57,641 for federal and state grants earned in 2004, but not received until after June 30, 2004.
- The Academy has fixed assets in the form of computers and office equipment totaling \$3,833, net of depreciation. Certain assets are maintained under a capital lease. See Note E to the financial statements for more detailed information on capital assets.
- Current liabilities of the Academy increased \$86,238 or 118%, primarily because of an increase in accounts payable of \$10,690 and an increase in accrued wages and benefits of \$67,211. The increase in wages and benefits was as a result of salary adjustments to be competitive in the local market and an increase in the number of teaching personnel to support the increase in students in the 2003-2004 school year.
- The Academy has net assets of \$65,206, which is the difference between its assets and liabilities. Net assets decreased by \$161,322 during the year as a result of a net loss for the school year.
- With respect to the statement of revenues, expenses, and changes in net assets, operating revenues increased by \$357,787 or 30% due to a significant increase in state foundation revenue. This increase was a result of an increase in enrollment of 44 students.
- Operating expenses increased in 2004 by \$730,649 or 55%. The majority of the increase related to increases in salaries and benefits as noted above and increases in rent, purchased services and materials and supplies. Rent increased because an additional 17,000 square feet of space was rented beginning in August 2003. This was for additional classroom space as well as cafeteria, library, and computer lab space. This additional space was necessary to accommodate the addition of the 7th grade class which was added in school year 2003-2004. It will also accommodate the addition of the 8th grade in school year 2004-2005. The space accommodates an additional 108 students. The increase in the materials and supplies is a result of furnishing the library as well as increased expenditures because of the increased enrollment. This also accounted for the increase in purchased services.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(Unaudited)

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

- Non-operating revenues increased \$49,021 as a result of increased state and federal grant funding.

Overview of the Financial Statements

Effective July 1, 2003, the Academy implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Disclosures*. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units, although their impact on the Academy's financial statements was not significant. These statements also change certain note disclosures and require the inclusion of Management's Discussion and Analysis.

The financial statements presented by the Academy are the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows.

The statement of net assets presents information on all the Academy's assets and liabilities, with the difference being the net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Academy's net assets changed during the year. This statement summarizes operating revenues and expenses, along with non-operating revenues and expenses.

The statement of cash flows allows financial statement users to assess the Academy's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories (as applicable): 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Finally, it should be noted that the Academy utilizes the accrual basis of accounting. This basis of accounting did not change as a result of the implementation of GASB Statement No. 34. Accrual accounting is similar to the accounting used by most private sector companies in that it recognizes revenues and expenses when earned regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(Unaudited)

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

Financial Analysis

The following summarizes our financial analysis of the Academy:

Statements of Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Amount of Change</u>	<u>Percent of Change</u>
Assets				
Current assets	\$ 209,402	\$ 280,453	\$ (71,051)	(25.3)%
Capital assets	3,833	9,873	(6,040)	(61.2)%
Other non-current assets	<u>11,530</u>	<u>9,523</u>	<u>2,007</u>	21.1%
Total assets	<u>\$ 224,765</u>	<u>\$ 299,849</u>	<u>\$ (75,084)</u>	(25.0)%
Liabilities				
Current liabilities	\$ 159,559	\$ 73,321	\$ 86,238	117.6%
Net assets				
Unrestricted net assets	<u>65,206</u>	<u>226,528</u>	<u>(161,322)</u>	(71.2)%
Liabilities and net assets	<u>\$ 224,765</u>	<u>\$ 299,849</u>	<u>\$ (75,084)</u>	(25.0)%

Statements of Revenues, Expenses, and Changes in Net Assets

	<u>Year ended June 30, 2004</u>	<u>2003</u>	<u>Amount of Change</u>	<u>Percent of Change</u>
Operating revenues	\$1,555,928	\$1,198,141	\$ 357,787	29.9%
Operating expenses	<u>2,065,229</u>	<u>1,334,580</u>	<u>730,649</u>	54.8%
Operating loss	(509,301)	(136,439)	(372,862)	273.3%
Non-operating revenues	<u>347,979</u>	<u>298,958</u>	<u>49,021</u>	16.4%
Net income (loss)	<u>\$ (161,322)</u>	<u>\$ 162,519</u>	<u>\$ (323,841)</u>	(199.3)%

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STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2004 AND 2003

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

	June 30,	
	2004	2003
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 151,761	\$ 198,644
State and federal grants receivable	57,641	81,809
TOTAL CURRENT ASSETS	<u>209,402</u>	<u>280,453</u>
PROPERTY AND EQUIPMENT		
Computer equipment	3,862	3,862
Furniture and equipment	2,994	11,270
	<u>6,856</u>	<u>15,132</u>
Less: accumulated depreciation	(3,023)	(5,259)
	<u>3,833</u>	<u>9,873</u>
OTHER ASSETS		
Marketable securities	11,530	9,523
TOTAL ASSETS	<u>\$ 224,765</u>	<u>\$ 299,849</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 32,956	\$ 22,266
Accrued wages and benefits	117,851	50,640
Deferred revenue	8,752	0
Current portion of capital lease obligation	0	415
TOTAL CURRENT LIABILITIES	<u>159,559</u>	<u>73,321</u>
NET ASSETS		
Unrestricted net assets	<u>65,206</u>	<u>226,528</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 224,765</u>	<u>\$ 299,849</u>

See accompanying notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

EDGE LEARNING, INC.
 dba THE EDGE ACADEMY

	Years ended June 30,	
	<u>2004</u>	<u>2003</u>
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 1,555,801	\$ 1,197,499
Other operating revenues	127	642
	<u>1,555,928</u>	<u>1,198,141</u>
<u>OPERATING EXPENSES</u>		
Salaries	986,515	699,310
Retirement	159,625	99,286
Insurance	33,523	24,612
Rent	248,280	121,960
Purchased services	231,116	170,419
Materials and supplies	303,897	169,459
Utilities	61,841	26,968
Depreciation and amortization	1,672	3,026
Other operating expenses	38,760	19,540
	<u>2,065,229</u>	<u>1,334,580</u>
	<u>(509,301)</u>	<u>(136,439)</u>
<u>NON-OPERATING REVENUES</u>		
Investment income	1,417	1,571
Unrealized gain (loss) on investments	2,007	(792)
Interest expense	(2)	(83)
State and federal grants	350,419	243,262
Loss on disposal of asset	(5,862)	0
Travel reimbursement claims award	0	55,000
	<u>347,979</u>	<u>298,958</u>
	(161,322)	162,519
	<u>226,528</u>	<u>64,009</u>
	<u>\$ 65,206</u>	<u>\$ 226,528</u>

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

<u>(Decrease) Increase in Cash and Cash Equivalents</u>	Years ended June 30,	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 1,573,860	\$ 1,184,569
Cash payments to employees for services and benefits	(1,112,452)	(793,150)
Cash payments to suppliers for goods and services	(834,524)	(493,370)
Cash payments for other operating expenses	(38,680)	(19,540)
Other operating revenues	127	642
Net cash used in operating activities	<u>(411,669)</u>	<u>(120,849)</u>
Cash flows from noncapital financing activities:		
State and federal grants	365,332	213,762
Travel reimbursement claims award	0	55,000
Interest income	1,365	1,571
Net cash provided by noncapital financing activities	<u>366,697</u>	<u>270,333</u>
Cash flows from capital and related financing activities:		
Cash payments on capital lease	(417)	(2,505)
Cash payments for capital acquisitions	(1,494)	0
Net cash used in capital and related financing activities	<u>(1,911)</u>	<u>(2,505)</u>
Net (decrease) increase in cash and cash equivalents	(46,883)	146,979
Cash and cash equivalents at beginning of year	<u>198,644</u>	<u>51,665</u>
Cash and cash equivalents at end of year	<u>\$ 151,761</u>	<u>\$ 198,644</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (509,301)</u>	<u>\$ (136,439)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	1,672	3,026
Change in assets and liabilities:		
State and federal grants receivable	9,307	(9,307)
Increase (decrease) in liabilities:		
Accounts payable	10,690	12,048
Accrued wages and benefits	67,211	9,823
Deferred revenue	8,752	0
Total adjustments	<u>97,632</u>	<u>15,590</u>
Net cash used in operating activities	<u>\$ (411,669)</u>	<u>\$ (120,849)</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, 2004 and 2003

NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The Academy operates under the direction of a self-appointing, five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by 8 non-certified and 19 certificated full-time teaching personnel who provide services to approximately 236 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Change in Accounting Principle: For the year ended June 30, 2004, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Except for the addition of Management's Discussion and Analysis, the implementation of GASB Statement No. 34 has had no significant impact on the School's financial statements.

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

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

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

Depreciation of computer equipment and furniture and fixtures is computed using the straight-line method based on estimated useful life of 5 years. Depreciation expense for the years ended June 30, 2004 and 2003 was \$1,672 and \$3,026, respectively.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

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 \$231,116 and \$170,419 for the years ended June 30, 2004 and 2003, respectively.

This includes the following at June 30:

	<u>2004</u>	<u>2003</u>
Consulting fees	\$ 15,793	\$ 0
Busing and transportation fees	2,517	4,121
Professional development	31,205	22,069
School psychologist	18,396	10,575
Speech and hearing services	19,740	16,708
Professional and legal	30,727	33,423
Maintenance services	44,740	23,733
Other general services	<u>67,998</u>	<u>59,790</u>
	<u>\$ 231,116</u>	<u>\$ 170,419</u>

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2004 and 2003, the carrying amount of the Academy's deposits was \$151,761 and \$198,644, respectively, and the bank balances were \$190,229 and \$238,705, 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>2004</u>	<u>2003</u>
Fair value when donated	\$ 10,147	\$ 10,147
Fair value at beginning of year	9,523	10,315
Fair value at end of year	<u>11,530</u>	<u>9,523</u>
Change in fair value	<u>\$ 2,007</u>	<u>\$ (792)</u>

NOTE D – STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2004 and 2003 consisted of state and federal grants. All state and federal grants are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

NOTE E – CAPITAL LEASE OBLIGATION

During fiscal year 2002, the Academy entered into a capitalized lease agreement for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. This capital lease was originally capitalized at a present value of \$9,770. This copier was surrendered to the lessor at the end of the lease term in August 2003, resulting in a loss of \$5,862. The Academy paid \$417 and \$2,505 in lease payments for the fiscal years ended June 30, 2004 and 2003, respectively.

NOTE F – RISK MANAGEMENT

Property and Liability: The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2004 and 2003, the Academy contracted with Philadelphia Insurance Companies for property and general liability insurance with a \$1,000,000 aggregate limit. Settled claims have not exceeded insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE F – RISK MANAGEMENT – CONTINUED

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

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

NOTE G – PENSION PLANS

School Employees Retirement System

Plan Description: The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, survivor, and health care benefits based on eligible service credit to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy: Plan members are required to contribute 10% (9% for 2003) of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% 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 2004 and 2003, 9.09% and 8.17%, respectively, of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The Academy's contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were as \$18,164, \$13,971, and \$5,242, respectively. The full amount has been contributed for 2003 and 2002. For 2004, approximately 50% of the required contribution has been paid with the remaining amount shown as a liability.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE G—PENSION PLANS—CONTINUED

State Teachers Retirement System:

The Academy also contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account, with investment decisions being 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, 2002.

A DB or Combined Plan member with five or more years credited service that 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 became 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE G – PENSION PLANS – CONTINUED

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries; this contribution percentage was 9.3% for 2003. The Academy was required to contribute 14% for 2004 and 2003, with 13% used to fund pension obligations and 1% used to fund health care benefits. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 307 of the Ohio Revised code provides statutory authority for members and employer contributions.

The Academy's required contributions for pension obligations to STRS for the years ended June 30 2004, 2003, and 2002 were \$88,602, \$66,915, and \$41,071, respectively. The full amount has been contributed for 2003 and 2002. For 2004, approximately 83% has been contributed with the remaining amount shown as a liability.

NOTE H – POST EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are funded on a pay-as-you-go basis.

All STRS recipients and sponsored dependents are eligible for health care benefits. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the years ended June 30, 2004 and 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$6,774 and \$5,147 for 2004 and 2003, respectively.

STRS pays health care benefits for the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients statewide.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE H—POST EMPLOYMENT BENEFITS—CONTINUED

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 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 the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal years 2004 and 2003, employer contributions to fund health care benefits were 4.91% and 5.83%, respectively, of the covered payroll. 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 2004, the minimum pay was established at \$25,400 for 2003, the minimum pay was \$14,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million.

At June 30, 2004, SERS had net assets available for payment of health care benefits of \$330.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$14,760 and \$12,214 during 2004 and 2003, respectively.

NOTE I—STATE SCHOOL FUNDING DECISION

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

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

NOTE J—CONTINGENCIES

Grants: The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE J – CONTINGENCIES – CONTINUED

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 K – 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 operating 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 is \$10,480. This lease expires on July 31, 2006, with no renewal options.

Total rent expense was \$248,280 and \$121,960 for the years ended June 30, 2004 and 2003, respectively.

As of June 2003, the Academy entered into a three-year lease agreement with Toshiba America Information Systems, Inc. for a copier. This operating 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, 2004 are as follows:

2005	\$ 263,796
2006	253,316
2007	<u>76,480</u>
	<u>\$ 593,592</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2004 and 2003

NOTE L – 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 K.) 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 \$20,826 in 2004. In addition, the Academy hired Partnership for America's Future, which is directed by another board member to install the science lab, provide science lab equipment, develop, and, train employees on the curriculum. Total paid during fiscal year 2004 and 2003 to Partnership for America's Future was \$0 and \$3,275, respectively.

NOTE M – OHIO DEPARTMENT OF EDUCATION FTE REVIEWS

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. This review revealed an underpayment to the Academy in the amount of \$9,307 for the year ended June 30, 2003. This amount is included in state and federal grants receivable at June 30, 2003. For the year ended June 30, 2004, this review resulted in overpayment to the Academy of \$8,752 which is shown as deferred revenue at June 30, 2004.

Effective for fiscal year 2005, the Academy changed its sponsor to the Lucas County Educational Service Center.

NOTE N – TRAVEL REIMBURSEMENT CLAIMS AWARD

Edge Academy in conjunction with several other community schools in the City of Akron brought a lawsuit against the Akron public schools for failing to transport students to and from the Community Schools. The Courts ruled in favor of the Community Schools and awarded Edge Academy \$55,000, which is reflected in the 2003 financial statements as Travel Reimbursement Claims Award.



**Auditor of State
Betty Montgomery**

**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 the business-type activities, of Edge Learning, Inc. d.b.a. The Edge Academy, Summit County, Ohio, (the Academy) as of and for the years ended June 30, 2004 and 2003, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 1, 2005, wherein we noted the Academy implemented Governmental Accounting Standards Board Statement No. 34. 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 in order 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 May 1, 2005, 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 Government'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*.

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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 1, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

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

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2005**