



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

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2011**



**Dave Yost • Auditor of State**



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
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
Federal Awards Receipts and Expenditures Schedule.....	23
Notes to the Federal Awards Receipts and Expenditure Schedule.....	24
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	25
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	27
Schedule of Findings.....	29
Schedule of Prior Audit Findings.....	32
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	33

**THIS PAGE INTENTIONALLY LEFT BLANK.**



# Dave Yost • 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 basic financial statements of Edge Learning, Inc., d.b.a. the Edge Academy, Summit County, Ohio, (the Academy), as of and for the year ended June 30, 2011, 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 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, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, 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. 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedules is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 16, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

EDGE LEARNING, INC.  
DBA THE EDGE ACADEMY

Years Ended June 30, 2011 and 2010

The 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, 2011 and 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

### Financial Highlights

- In total, net assets increased \$69,548 and \$68,960 which represents a 16.6 and 19.7 percent increase from 2010 and 2009, respectively. These increases are primarily due to total revenues exceeding total expenses for both years.
- The assets (decreased) increased \$(18,447) and \$190,520 which represents a (2.3) and 30.9 percent (decrease) increase from 2010 and 2009, respectively. This was primarily due to a decrease in cash and an increase in capital assets and marketable securities in 2011, and an increase in cash, capital assets and marketable securities in 2010.
- Liabilities (decreased) increased \$(87,995) and \$121,560, which represents a (22.6) and 45.5 percent (decrease) increase from 2010 and 2009, respectively. The (decrease) increase in liabilities is primarily due to the (decrease) increase in accrued wages and benefits and deferred revenue for both years.

### Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Academy uses the enterprise presentation for all of its activities.

### Statement of Net Assets

The Statement of Net Assets answers the question of how the Academy did financially during 2011 and 2010. These statements include all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED

EDGE LEARNING, INC.  
DBA THE EDGE ACADEMY

Years Ended June 30, 2011 and 2010

The table below provides a summary of the Academy's net assets for fiscal years 2011 and 2010.

	<u>2011</u>	<u>2010</u>
<b>Statement of Net Assets</b>		
<u>ASSETS</u>		
Current assets	\$ 511,250	\$ 597,150
Capital assets, net	95,290	67,857
Other assets	182,394	142,374
TOTAL ASSETS	<u>\$ 788,934</u>	<u>\$ 807,381</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 275,065	\$ 388,773
Long term liabilities	25,713	0
TOTAL LIABILITIES	<u>\$ 300,778</u>	<u>\$ 388,773</u>
<u>NET ASSETS</u>		
Invested in capital assets	\$ 95,290	\$ 67,857
Unrestricted	392,866	350,751
TOTAL NET ASSETS	<u>\$ 488,156</u>	<u>\$ 418,608</u>

**Statements of Revenues, Expenses and Changes in Net Assets**

The table that follows shows the changes in net assets for fiscal years 2011 and 2010, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.



MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

EDGE LEARNING, INC.  
DBA THE EDGE ACADEMY

Years Ended June 30, 2011 and 2010

Change in Net Assets

<u>OPERATING REVENUES</u>	<u>2011</u>	<u>2010</u>
Foundation payments	\$ 1,740,853	\$ 1,802,910
Other	7,817	1,061
 <u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	3,483	3,541
Gain on sale of assets	5,133	0
Realized gain on investments	10,412	2,893
Unrealized gain on investments	26,818	12,233
State and federal grants	731,543	1,075,523
TOTAL REVENUES	<u>2,526,059</u>	<u>2,898,161</u>
 <u>OPERATING EXPENSES</u>		
Salaries	1,178,517	1,465,470
Retirement	164,037	186,457
Insurance	51,921	48,177
Rent	360,238	357,348
Purchased services	264,729	348,511
Materials and supplies	263,964	297,252
Utilities	42,962	40,888
Depreciation	14,462	10,074
Other operating expenses	115,681	75,024
TOTAL OPERATING EXPENSES	<u>2,456,511</u>	<u>2,829,201</u>
CHANGE IN NET ASSETS	<u>\$ 69,548</u>	<u>\$ 68,960</u>

The primary reason for the decrease in overall revenues from 2010 was the decrease in State and Federal grants due to a decrease in the number of low income students reported. The Academy's most significant expense, "Salaries" decreased due to the reduction of certified staff.

**Budgeting Highlights**

Unlike the public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the Academy and its sponsor, the Lucas County Educational Service Center, does not prescribe a budgetary process for the Academy.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

EDGE LEARNING, INC.  
DBA THE EDGE ACADEMY

Years Ended June 30, 2011 and 2010

**Capital Assets**

At the end of fiscal year 2011 and 2010 the Academy had \$95,290 and \$67,857, respectively, invested in computers and software, furniture and equipment, leasehold improvements and vehicles (net of depreciation), which represented an increase of \$27,433 and \$20,728 from 2010 and 2009, respectively. The table below shows the changes in Capital Assets.

<b>Capital Assets (Net of Depreciation)</b>		
	2011	2010
Computer Equipment	\$ 10,413	\$ 34,425
Furniture and Equipment	41,502	3,456
Leasehold Improvements	28,052	29,976
Vehicles	15,323	0
	<u>\$ 95,290</u>	<u>\$ 67,857</u>

For more information on capital assets, see Note B in the Notes to the Basic Financial Statements.

**Current Financial Issues**

The Academy received revenue for 258 students in 2011 (a decrease from 2010 of 32) but continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The Academy receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the Academy averaged \$6,747 in fiscal year 2011 with no increase in State Basic Aid planned in fiscal year 2012. The Academy receives additional revenues from grant subsidies.

On July 1, 2005, the Academy contracted with the Lucas County Education Service Center as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. Lucas County Educational Service Center charged 1.5 percent of State Aid to be paid by the School for fiscal year 2011 and 2010.

**Contacting the School's Financial Management**

This financial report is designed to provide our readers 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 information, contact Christina Burchfield, Director for the Edge Academy, 92 North Union Street, Akron, Ohio 44304 or e-mail at [chris.b@edge4kids.org](mailto:chris.b@edge4kids.org).

STATEMENTS OF NET ASSETS

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

	June 30,	
	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 251,774	\$ 578,390
State and federal grants receivable	52,493	241
Prepaid expense	31,809	0
Due from related party	175,174	18,519
TOTAL CURRENT ASSETS	<u>511,250</u>	<u>597,150</u>
PROPERTY AND EQUIPMENT		
Computer equipment	20,076	46,528
Furniture and equipment	48,261	7,305
Land improvements	33,023	33,023
Leasehold improvements	5,455	5,455
Vehicles	16,417	0
	<u>123,232</u>	<u>92,311</u>
Less: accumulated depreciation	(27,942)	(24,454)
	<u>95,290</u>	<u>67,857</u>
OTHER ASSETS		
Marketable securities	182,394	142,374
TOTAL ASSETS	<u>788,934</u>	<u>807,381</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	27,152	21,975
Accrued wages and benefits	151,014	225,706
Deferred revenue	84,655	141,092
Current portion of capital lease payable	12,244	0
TOTAL CURRENT LIABILITIES	<u>275,065</u>	<u>388,773</u>
LONG-TERM LIABILITIES		
Capital lease payable	25,713	0
	<u>300,778</u>	<u>388,773</u>
NET ASSETS		
Invested in capital assets	95,290	67,857
Unrestricted net assets	392,866	350,751
TOTAL NET ASSETS	<u>\$ 488,156</u>	<u>\$ 418,608</u>

See accompanying notes to the basic financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

	Years ended June 30,	
	2011	2010
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 1,740,853	\$ 1,802,910
Other	7,817	1,061
	<u>1,748,670</u>	<u>1,803,971</u>
<u>OPERATING EXPENSES</u>		
Salaries	1,178,517	1,465,470
Retirement	164,037	186,457
Insurance	51,921	48,177
Rent	360,238	357,348
Purchased services	264,729	348,511
Materials and supplies	263,964	297,252
Utilities	42,962	40,888
Depreciation	14,462	10,074
Other operating expenses	115,681	75,024
	<u>2,456,511</u>	<u>2,829,201</u>
	<u>(707,841)</u>	<u>(1,025,230)</u>
<u>NON-OPERATING REVENUES</u>		
Investment income	3,483	3,541
Gain on sale of assets	5,133	0
Realized gain on investments	10,412	2,893
Unrealized gain on investments	26,818	12,233
State and federal grants	731,543	1,075,523
	<u>777,389</u>	<u>1,094,190</u>
	69,548	68,960
	<u>418,608</u>	<u>349,648</u>
	\$ 488,156	\$ 418,608

See accompanying notes to the basic financial statements.

STATEMENTS OF CASH FLOWS

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

	Years ended June 30,	
	2011	2010
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 1,632,123	\$ 1,876,347
Cash payments to employees for services and benefits	(1,454,608)	(1,648,370)
Cash payments to suppliers for goods and services	(940,464)	(1,050,694)
Cash payments for other operating expenses	(115,091)	(73,581)
Other operating revenues	8,151	1,212
Net cash used in operating activities	<u>(869,889)</u>	<u>(895,086)</u>
Cash flows from noncapital financing activities:		
State and federal grants	729,848	1,079,752
Investment income	3,483	3,541
Net cash provided by noncapital financing activities	<u>733,331</u>	<u>1,083,293</u>
Cash flows from capital and related financing activities:		
Cash payments for related party	(156,655)	(18,519)
Cash payments for capital acquisitions	(16,417)	(30,802)
Cash received from sale of assets	20,612	0
Cash received from sale of investments	34,510	18,869
Cash payments for purchases of investments	(37,300)	(21,400)
Cash payments for payroll liability for next year	(31,809)	0
Cash payments for capital lease	(2,999)	0
Net cash used in capital and related financing activities	<u>(190,058)</u>	<u>(51,852)</u>
Net (decrease) increase in cash and cash equivalents	<u>(326,616)</u>	<u>136,355</u>
Cash and cash equivalents at beginning of year	<u>578,390</u>	<u>442,035</u>
Cash and cash equivalents at end of year	<u>\$ 251,774</u>	<u>\$ 578,390</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (707,841)</u>	<u>\$ (1,025,230)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	14,462	10,074
(Increase) decrease in assets:		
Accounts receivable	(52,267)	220
Increase (decrease) in liabilities:		
Accounts payable	6,887	2,036
Accrued wages and benefits	(74,693)	44,377
Deferred revenue	(56,437)	73,437
Total adjustments	<u>(162,048)</u>	<u>130,144</u>
Net cash used in operating activities	<u>\$ (869,889)</u>	<u>\$ (895,086)</u>

See accompanying notes to the basic financial statements.

**THIS PAGE INTENTIONALLY LEFT BLANK.**

## NOTES TO FINANCIAL STATEMENTS

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

### 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 from kindergarten through fifth grade. 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, 2007.

The Academy operates under the direction of a self-appointing, five-member Board of Directors. 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 6 non-certified and 26 certified full-time teaching personnel who provide services to approximately 258 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 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The Academy has elected not to follow FASB guidance for its proprietary activities issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

The following are the most significant of the Academy's accounting policies.

**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 (expenses, including depreciation) 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, 2011 and 2010

### 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 Statement of Net Assets. 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 financial records and reported in the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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. Expenses are recognized at the time 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 Revised Code Chapter 5705, unless specifically provided in the Academy's contract with the sponsor. The contract between the Academy and their sponsor, the Lucas County Educational Center, does not prescribe a budgetary process for the Academy.

**Cash:** Cash held by the Academy is reflected as "cash and cash equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**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 statement of net assets.

**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.



NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Depreciation of computer equipment, furniture and equipment, land improvements, leasehold improvements and vehicles are computed using the straight-line method based on estimated useful life of 5 to 20 years. Depreciation expense for the years ended June 30, 2011 and 2010 was \$14,462 and \$10,074, respectively.

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 \$264,729 and \$348,511 for the years ended June 30, 2011 and 2010, respectively.

This includes the following at June 30:

	<u>2011</u>	<u>2010</u>
Busing and transportation fees	\$ 27,658	\$ 36,251
Professional development	78,103	91,508
Professional and legal	43,637	30,763
Maintenance services	26,524	29,172
Nursing services	22,208	0
Technical services	28,242	0
Copier lease	15,879	0
Other general services	22,478	160,817
	<u>\$ 264,729</u>	<u>\$ 348,511</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 limitations imposed on their use either through the enabling of legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

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

**Intergovernmental Revenue:** The Academy currently participates in the State Foundation Program, the State Meals Program, the EMIS Subsidy Program, the Food Service Federal Grant Programs, the IDEA Part B Program, Title I, Title II-A, and the Fiscal Stabilization Program. Revenues received from these programs are recognized as non-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, 2011 and 2010. 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.

**Income Taxes:** The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provisions for federal income taxes in the accompanying financial statements. In addition, the Academy has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for years ended June 30, 2011 and 2010. The Academy believes that it has appropriate support for the tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Academy’s federal Return of Organization Exempt From Income Tax (Form 990) for 2007, 2008, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

## NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

### NOTE C—DEPOSITS AND INVESTMENTS

**Deposits:** At June 30, 2011 and 2010, the carrying amount of the Academy's deposits was \$251,774 and \$578,390, respectively, and the bank balances were \$241,107 and \$599,610, respectively. \$250,000 of the bank balances were covered by the federal depository insurance with the remainder uninsured and uncollateralized.

**Custodial Credit Risk:** Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end June 30, 2011 and 2010, \$0 and \$152,120 of the Academy's bank balances were uninsured and uncollateralized. The securities were held by the pledging institutions' trust department. Institution noncompliance with federal requirements could potentially subject the Academy's deposits to a successful claim by the FDIC. The Academy has no deposit policy for custodial credit risk.

The Academy's investments at June 30, 2011 and 2010 consisted of marketable securities held by an investment firm's agent.

The Academy's investments are protected by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the broker-dealer. SIPC was created by the Securities Investor Protections Act of 1970 and is neither a government or a regulatory authority, but a nonprofit, membership corporation, funded by its member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

After the above distribution, SIPC funds are available to satisfy the remaining claims of each customer, up to a maximum of \$500,000, including up to \$100,000 on claims for cash (as distinction from claims for securities). Any remaining assets after payment of liquidation expenses may be available to satisfy any remaining portion of customer claims on a pro rata basis with other creditors.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

NOTE C – DEPOSITS AND INVESTMENTS – CONTINUED

**Investments:** Marketable securities as of June 30 consisted of stock valued as follows:

	2011				
	Fair Value	Purchases	Sales	Unrealized	Fair Value
	Beg. of Year	At Cost	At Cost	Gain (Loss)	
International Equity Mutual Funds	\$ 22,371	\$ 17,200	\$ 0	\$ 6,009	\$ 45,580
Equity Mutual Funds	95,858	20,100	(18,598)	19,564	116,924
Fixed Mutual Funds	7,087	0	(5,500)	(1,587)	0
Common Stock	17,058	0	0	2,832	19,890
	<u>\$ 142,374</u>	<u>\$ 37,300</u>	<u>\$ (24,098)</u>	<u>\$ 26,818</u>	<u>\$ 182,394</u>

  

	2010				
	Fair Value	Purchases	Sales	Unrealized	Fair Value
	Beg. of Year	At Cost	At Cost	Gain (Loss)	
International Equity Mutual Funds	\$ 21,179	\$ 2,400	\$ (1,880)	\$ 672	\$ 22,371
Equity Mutual Funds	67,539	11,900	0	16,419	95,858
Fixed Mutual Funds	12,149	7,100	(5,500)	(6,662)	7,087
Common Stock	23,850	0	(8,596)	1,804	17,058
	<u>\$ 124,717</u>	<u>\$ 21,400</u>	<u>\$ (15,976)</u>	<u>\$ 12,233</u>	<u>\$ 142,374</u>

NOTE D – STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2011 and 2010 consisted of state and federal grants and other miscellaneous income. 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 2011 and 2010, 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.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

### NOTE E – RISK MANAGEMENT – CONTINUED

**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 \$407 per month per employee, for this coverage.

### NOTE F – DEFINED BENEFIT PENSION PLANS

#### **School Employees Retirement System**

**Plan Description** - 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. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org), under Employers/Audit Resources.

**Funding Policy** - 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 2011, 2010 and 2009, 11.81%, 12.78% and 9.09% of annual covered salary were the portions used to fund pension obligations, respectively.

The remaining 2.19%, 1.22% and 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$2,556, \$30,568, and \$23,000, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

#### **State Teachers Retirement System of Ohio**

**Plan Description** - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

## NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

### NOTE F—DEFINED BENEFIT PENSION PLANS—CONTINUED

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 allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers Plan 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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.

Funding Policy - For the fiscal years ended June 30, 2011, 2010 and 2009, 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. 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.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009, were \$116,991, \$136,311, and \$98,460, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

#### **Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, there were no members of the governing board that elected Social Security.

## NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

### NOTE G—POST EMPLOYMENT BENEFITS

#### **School Employees Retirement System**

Plan Description - The Academy participates in two cost sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2011, 2010 and 2009, 1.43%, 0.46% and 4.16% respectively of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011 and 2010, this amount was \$35,800. During fiscal years 2011 and 2010 the Academy paid surcharges of \$2,379 and \$1,000, respectively.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,669, \$1,100, and \$7,971, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, 2010 and 2009, the actuarially required allocation was 0.76%, 0.76% and 0.75%, respectively, of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$887, \$1,818, and \$1,753 respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

## NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

### NOTE G—POST EMPLOYMENT BENEFITS—CONTINUED

#### **State Teachers Retirement System**

**Plan Description** – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011 and 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$8,357, \$10,485, and \$7,612, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

### NOTE H—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, 2011.

**Enrollment FTE:** The Ohio Department of Education conducts reviews of enrollment 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. The conclusions of this review could result in state funding being adjusted. For fiscal years 2011 and 2010 these reviews resulted in adjustments of \$52,293 and \$(141,092), respectively. The 2010 amount is reflected as deferred revenue on the Academy's statement of net assets and will be adjusted from the Academy's future foundation settlements. As of June 30, 2011, \$84,655 remains to be adjusted. The 2011 amount is reflected as state and federal grants receivable on the Academy's statement of net assets and will be included in the Academy's future foundation settlements.



NOTES TO FINANCIAL STATEMENTS— CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

NOTE I—LEASE COMMITMENTS

As of August 1, 2009, the Academy entered into a three-year lease with Charter Development Foundation, Inc. (a related party) for the use of classrooms and office space. This lease commenced on August 1, 2009. Annual rent for the use of these facilities is \$358,897 payable in monthly installments of \$29,908. The lease expires in July 31, 2012. The Academy is responsible for paying all taxes, utilities and maintenance costs.

Total rent expense was \$358,897 and \$355,235 for the years ended June 30, 2011 and 2010, respectively.

As of July 2008, the Academy entered into a three-year lease agreement with Toshiba Business Solution for three copiers. This lease commenced in September 2008, expiring in August 2011. Monthly payment for the use of this equipment was \$1,314. This lease was cancelled in March 2011 and the new lease was capitalized.

The new lease agreement with Toshiba Business Solutions is for three copiers totaling \$40,956 with related accumulated depreciation in the amount of \$2,048 and are leased under arrangement which qualify as a capital lease. The following is a schedule of minimum lease commitments outstanding at June 30:

2012	\$ 13,296
2013	13,296
2014	<u>13,296</u>
Total minimum lease payments	39,888
Amount representing interest	<u>(1,931)</u>
Present value of net minimum lease payments	37,957
Less current portion	<u>(12,244)</u>
Long term capital lease payable	<u><u>\$ 25,713</u></u>

Future minimum rental payments as of June 30, 2011 are as follows:

2012	\$ 358,897
2013	<u>29,908</u>
	<u><u>\$ 388,805</u></u>

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.  
dba THE EDGE ACADEMY

June 30, 2011 and 2010

NOTE J—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 I.)

The Academy has a due from related party in the amount of \$175,174 and \$18,519 from Akros Middle School, a not-for-profit organization established and managed by a Board member. Akros Middle School did not begin operations until fiscal year 2011. The receivable resulted from the Academy paying net expenses in the amount of \$156,655 and \$18,519 for Akros during fiscal year ended June 30, 2011 and 2010, respectively.

**EDGE ACADEMY  
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/ Pass Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through the Ohio Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$ 59,997	\$ 59,997
School Lunch Program	10.555	<u>118,220</u>	<u>104,440</u>
Total Child Nutrition Cluster		178,217	164,437
Child Nutrition Discretionary Grant	10.579	<u>1,494</u>	<u>1,494</u>
<b>Total U.S. Department of Agriculture</b>		<b>179,711</b>	<b>165,931</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through the Ohio Department of Education:</i>			
Special Education Cluster			
Special Education Grants to States	84.027	64,583	64,583
Special Education - Preschool Grants	84.173	<u>1,209</u>	<u>1,209</u>
Total Special Education Cluster		65,792	65,792
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	196,747	204,055
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>-</u>	<u>28,322</u>
Total Title I, Part A Cluster		196,747	232,377
ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund)	84.394	148,357	148,357
ARRA - Education Jobs Fund	84.410	106,639	106,639
Improving Teacher Quality State Grants	84.367	21,323	33,171
Education Technology State Grants	84.318	<u>655</u>	<u>655</u>
<b>Total U.S. Department of Education</b>		<u>539,513</u>	<u>586,991</u>
<b>Totals</b>		<b><u>\$ 719,224</u></b>	<b><u>\$ 752,922</u></b>

*The accompanying notes are an integral part of this schedule.*

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Edge Learning, Inc., d.b.a. the Edge Academy (the Academy's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



# Dave Yost • 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 44304

To the Board of Directors:

We have audited the financial statements of Edge Learning, Inc., d.b.a. the Edge Academy, Summit County, Ohio, (the Academy) as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 16, 2012. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. 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 timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

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. We consider finding 2011-02 described in the accompanying schedule of findings to be a significant deficiency.

### **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*.

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 16, 2012.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, federal awarding agencies and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

March 16, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Directors:

### Compliance

We have audited the compliance of Edge Learning, Inc., d.b.a. the Edge Academy, Summit County, Ohio, (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Academy's major federal program for the year ended June 30, 2011. The summary of auditor's results section of the accompanying Schedule of Findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Government's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

In our opinion, Edge Learning, Inc., d.b.a. the Edge Academy, Summit County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated March 16, 2012.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

March 16, 2012



**EDGE LEARNING, INC. D.B.A. THE EDGE ACADEMY  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title 1 Part A Cluster: CFDA 84.010 - Title I Grants to Local Educational Agencies and CFDA 84.389 ARRA-Title 1 Grants to Local Educational Agencies, Recovery Act Child Nutrition Cluster: CFDA - 10.553 School Breakfast Program CFDA - 10.555 School Lunch Program
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**Financial Statement Adjustments**

<i>Finding Number</i>	2011-01
-----------------------	---------

MATERIAL WEAKNESS

Our testing of the financial statements and footnotes revealed the following issues:

- The Management's Discussion and Analysis did not contain any variance analysis of prior and current year activity.
- The defined benefit pension plan and post employment benefits financial statement notes were not updated with the appropriate contribution rates, required contributions, and various other information. These changes were made to the financial statement notes.
- Deferred Revenue was understated by \$84,655, respectively due to the Academy's Full-Time Equivalent (FTE) state foundation adjustment not being accrued. This was adjusted to the financial statements.
- Federal grant receipts in the amount of \$107,294 were posted as State Foundation Revenue. These were adjusted to the financial statements.
- The School incorrectly posted \$13,852 of expenses to the Title I grant which should have been posted to the General Fund. The management of the school corrected the posting of the expenses during the course of the audit and these expenses are not reflected in the Federal Schedule as of June 30, 2011.
- Other operating revenue and related expenditures were understated by \$9,357 because fundraiser revenues were reported net of related expenses in the financial statements.
- Accrued wages and retirement expense were originally overstated by \$14,202 because SERS was improperly accrued. These were adjusted to the financial statements.
- The Academy has not implemented a GAAP Conversion Policy governing the compiling, review, and presentation of the financial statements.

Management should draft, approve, and implement a GAAP Conversion Policy which governs the Academy's practices for compiling, reviewing, and presenting the financial report of the School. The Academy should disclose all revenue at gross and also separately recognize the accompanying expense in the financial statements. Management should also review the draft GAAP journal entries and draft financial statements to help ensure they are supported by sufficient and accurate documentation, free of obvious errors and omissions, and consistent with their financial expectations. Management should also include variance analysis within the Management's Discussion and Analysis discussing any significant variation from the prior fiscal year. These procedures should help avoid financial statement errors, help ensure more accurate financial reporting, and help to disclose to the reader any significant variation from the prior audit period.

**Official's Response:** The Academy will work on drafting and implementing a GAAP Conversion Policy consistent with the recommendations of the State Auditors Department.

### Payroll Processing

<i>Finding Number</i>	2011-02
-----------------------	---------

#### SIGNIFICANT DEFICIENCY

The Academy contracted its payroll processing, which is a significant accounting function, to a third party administrator. The Academy has not established procedures to determine whether the service organization has sufficient controls in place, and operating effectively, to help ensure payroll transactions are completely and accurately processed. As such, we were unable to rely on the service organization controls in our audit and therefore, we performed detail substantive testing to gain assurance over payroll transactions processed by the service organization.

The Academy should implement procedures to help ensure the completeness and accuracy of payroll transactions processed by its third-party administrator. AT Section 801, *Reporting on Controls at a Service Organization* (SSAE No. 16), prescribes standards for reporting on the processing (i.e. control and design operation) of transactions by service organizations. An unqualified *Independent Service Auditor's Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls Report* (Type 2 Service Organization Control Report (SOC 1)) report should provide the Academy with an appropriate level of assurance that payroll is being processed completely and accurately.

The Academy should specify in their contract with the third-party administrator that an annual Type 2 SOC 1 report be issued. The Academy should be provided a copy of the Type 2 SOC 1 report in a timely fashion and should review the report to determine the adequacy of the service organization's internal control system. A Type 2 SOC 1 report should be conducted in accordance with America Institute of Certified Public Accountants' (AICPA) Standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State.

**Official's Response:** The Academy will work with their current third party administrator (Ahola Payroll Services) into obtaining and issuing a Type 2 SOC 1 report. The Academy will also look into the cost of contracting with another Payroll Service that issue Type 2 SOC1 reports.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

None

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
Finding Number 2010-001	<b>Material Weakness – Financial Statement Adjustments:</b> Several material financial statement errors were identified and adjusted during the audit.	No	Partially Corrected. Similar comment repeated as Finding 2011-01
Finding Number 2010-002	<b>Significant Deficiency – Payroll Processing:</b> The Academy's payroll processing was contracted to a third-party and the Academy has not established procedures to determine whether the service organization has sufficient controls in place that are operating effectively to help ensure payroll transactions are completely and accurately processed.	No	Repeated as Finding 2011-02.



# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Edge Learning, Inc., (the Academy) has adopted an anti-harassment policy and updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy with its original Board policies in 1999.
2. We read the policy, noting it did not include the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A procedure for documenting any prohibited incident that is reported;
  - (2) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
3. We noted the Academy did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Academy to amend its definition by September 28, 2010.

Edge Learning, Inc.  
Summit County  
Independent Accountants' Report on  
Applying Agreed-Upon Procedure  
Page 2

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Academy's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

March 16, 2012



# Dave Yost • Auditor of State

**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  
MAY 8, 2012**