

**EDGE LEARNING, INC.
dba The Edge Academy
SUMMIT COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Directors
The Edge Learning, Inc. dba The Edge Academy
92 North Union Street
Akron, Ohio 43044

We have reviewed the *Independent Auditor's Report* of the The Edge Learning, Inc. dba The Edge Academy, Summit County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2011 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Edge Learning, Inc. dba The Edge Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 3, 2014

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EDGE LEARNING, INC.
dba The Edge Academy
SUMMIT COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Edge Learning, Inc.
dba The Edge Academy
Akron, Ohio

We have audited the accompanying financial statements of Edge Learning, Inc., dba The Edge Academy, Summit County, Ohio (the Academy), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Edge Learning, Inc., dba The Edge Academy, Ohio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edge Learning, Inc., dba The Edge Academy, Ohio, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of Edge Learning, Inc., dba The Edge Academy, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Edge Learning, Inc., dba The Edge Academy, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.02.07 15:09:26 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

January 24, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

EDGE LEARNING, INC.
DBA THE EDGE ACADEMY

Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 position increased (decreased) \$98,540 and \$(34,983) which represents a 21.7 and (7.2) percent increase (decrease) from 2012 and 2011, respectively. The increase in net position is mainly attributed to higher total operating revenues, coupled with lower total operating expenses in 2013 as compared to the same period in 2012.
- Assets increased (decreased) \$83,373 and \$(136,368) which represents a 12.8 and (17.3) percent increase (decrease) from 2012 and 2011, respectively. The increase is primarily due to an increase in cash and cash equivalents and capital assets in 2013.
- Liabilities (decreased) \$(15,167) and \$(101,385), which represents a (7.6) and (33.7) percent (decrease) from 2012 and 2011, respectively. The decrease in liabilities is mainly due to a decrease in accrued wages and benefits during the year.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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

Statement of Net Position

The Statement of Net Position answers the question of how the Academy did financially during 2013 and 2012. 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, 2013 and 2012

The table below provides a summary of the Academy's net position for fiscal years 2013, 2012 and 2011.

Statement of Net Position			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>			
Current assets	\$ 438,170	\$ 395,277	\$ 511,250
Capital assets, net	90,873	77,787	95,290
Other assets	<u>206,896</u>	<u>179,502</u>	<u>182,394</u>
TOTAL ASSETS	<u>\$ 735,939</u>	<u>\$ 652,566</u>	<u>\$ 788,934</u>
<u>LIABILITIES</u>			
Current liabilities	\$ 184,226	\$ 186,328	\$ 275,065
Long-term liabilities	<u>0</u>	<u>13,065</u>	<u>25,713</u>
TOTAL LIABILITIES	<u>\$ 184,226</u>	<u>\$ 199,393</u>	<u>\$ 300,778</u>
<u>NET POSITION</u>			
Net Investment in capital assets	\$ 77,808	\$ 52,074	\$ 95,290
Unrestricted	<u>473,905</u>	<u>401,099</u>	<u>392,866</u>
TOTAL NET POSITION	<u>\$ 551,713</u>	<u>\$ 453,173</u>	<u>\$ 488,156</u>

Statements of Revenues, Expenses and Changes in Net Position

The table that follows shows the changes in net position for fiscal years 2013, 2012, and 2011, as well as a listing of revenues and expenses. This change in net position 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, 2013 and 2012

<u>Change in Net Position</u>			
<u>OPERATING REVENUES</u>	2013	2012	2011
Foundation payments	\$ 1,882,197	\$ 1,810,780	\$ 1,740,853
Other	13,822	5,628	7,817
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Investment income	4,854	3,920	3,483
Realized gain on investments	10,237	7,565	10,412
Unrealized gain (loss) on investments	13,255	(13,416)	26,818
Gain on sale of assets	0	0	5,133
State and federal grants	494,522	536,133	731,543
TOTAL REVENUES	<u>2,418,887</u>	<u>2,350,610</u>	<u>2,526,059</u>
<u>OPERATING EXPENSES</u>			
Salaries	1,162,314	1,189,000	1,178,517
Retirement	104,610	192,957	164,037
Insurance	61,032	53,905	51,921
Rent	360,287	359,797	360,238
Purchased services	202,000	181,072	264,729
Materials and supplies	262,853	240,444	263,964
Utilities	54,692	55,466	42,962
Depreciation	19,161	17,503	14,462
Other operating expenses	93,398	95,449	115,681
TOTAL OPERATING EXPENSES	<u>2,320,347</u>	<u>2,385,593</u>	<u>2,456,511</u>
CHANGE IN NET POSITION	<u>\$ 98,540</u>	<u>\$ (34,983)</u>	<u>\$ 69,548</u>

The primary reason for the increase in overall revenues from 2012 was increase in foundation payments which is offset by decrease in state and federal grants in 2013. A slight decrease in operating expenses is mainly due to lower retirement expenses during the year.

The primary reason for the decrease in overall revenues from 2011 was a decrease in state and federal grants in 2012. A slight decrease in operating expense for 2012 is mainly due to lower purchased services.

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, St. Aloysius 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, 2013 and 2012

Capital Assets

At the end of fiscal year 2013, 2012, and 2011 the Academy had \$90,873, \$77,787, and \$95,290 respectively, invested in computers and software, furniture and equipment, leasehold/land improvements and vehicles (net of depreciation), which represented an increase (decrease) of \$13,086 and (\$17,503) from 2012 and 2011, respectively. The table below shows the changes in Capital Assets.

	Capital Assets (Net of Depreciation)		
	2013	2012	2011
Computer Equipment	\$ 3,928	\$ 7,171	\$ 10,413
Furniture and Equipment	23,395	32,449	41,502
Leasehold/land Improvements	46,692	26,128	28,052
Vehicles	16,858	12,039	15,323
	<u>\$ 90,873</u>	<u>\$ 77,787</u>	<u>\$ 95,290</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 262 students in 2013 (an increase from 2012 of 2) and 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 \$7,183 in fiscal year 2013 with increase in State Basic Aid planned in fiscal year 2014. The Academy receives additional revenues from grant subsidies.

The Academy entered into a contract with St. Aloysius (Sponsor) on August 1, 2013. The contract expires on June 30, 2015 unless the Academy notifies the Sponsor at least 180 days prior to the expiration of this contract. The Academy is responsible for a monthly fee to the Sponsor of three percent (3%) of all funds received by the Academy from the State of Ohio.

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.

STATEMENTS OF NET POSITION

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

	June 30,	
	2013	2012
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 418,773	\$ 313,669
State and federal grants receivable	19,397	17,538
Accounts receivable, other	0	41,427
Prepaid expense	0	4,124
Due from related party	0	18,519
TOTAL CURRENT ASSETS	<u>438,170</u>	<u>395,277</u>
PROPERTY AND EQUIPMENT		
Computer equipment	20,076	20,076
Furniture and equipment	48,261	48,261
Land improvements	33,023	33,023
Leasehold improvements	28,203	5,455
Vehicles	24,032	16,417
	<u>153,595</u>	<u>123,232</u>
Less: accumulated depreciation	(62,722)	(45,445)
TOTAL PROPERTY AND EQUIPMENT	<u>90,873</u>	<u>77,787</u>
OTHER ASSETS		
Marketable securities	206,896	179,502
TOTAL ASSETS	<u>735,939</u>	<u>652,566</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	52,837	22,504
Due to related party	18,976	0
Accrued wages and benefits	99,348	151,176
Current portion of capital lease	13,065	12,648
TOTAL CURRENT LIABILITIES	<u>184,226</u>	<u>186,328</u>
LONG-TERM LIABILITIES		
Capital lease payable	0	13,065
TOTAL LIABILITIES	<u>184,226</u>	<u>199,393</u>
NET POSITION		
Net investment in capital assets	77,808	52,074
Unrestricted net position	473,905	401,099
TOTAL NET POSITION	<u>\$ 551,713</u>	<u>\$ 453,173</u>

See accompanying notes to the basic financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

	Years ended June 30,	
	2013	2012
<u>OPERATING REVENUES</u>		
Foundation payments	\$ 1,882,197	\$ 1,810,780
Other	13,822	5,628
	<u>1,896,019</u>	<u>1,816,408</u>
<u>OPERATING EXPENSES</u>		
Salaries	1,162,314	1,189,000
Retirement	104,610	192,957
Insurance	61,032	53,905
Rent	360,287	359,797
Purchased services	202,000	181,072
Materials and supplies	262,853	240,444
Utilities	54,692	55,466
Depreciation	19,161	17,503
Other operating expenses	93,398	95,449
	<u>2,320,347</u>	<u>2,385,593</u>
	<u>(424,328)</u>	<u>(569,185)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	4,854	3,920
Realized gain on investments	10,237	7,565
Unrealized gain (loss) on investments	13,255	(13,416)
State and federal grants	494,522	536,133
	<u>522,868</u>	<u>534,202</u>
	98,540	(34,983)
	<u>453,173</u>	<u>488,156</u>
	<u>\$ 551,713</u>	<u>\$ 453,173</u>

See accompanying notes to the basic financial statements.

STATEMENTS OF CASH FLOWS

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 1,880,338	\$ 1,778,418
Cash payments to employees for services and benefits	(1,323,893)	(1,425,911)
Cash payments to suppliers for goods and services	(879,833)	(820,930)
Cash payments for other operating expenses	(77,465)	(97,516)
Other operating revenues	13,822	5,294
Net cash used in operating activities	<u>(387,031)</u>	<u>(560,645)</u>
Cash flows from noncapital financing activities:		
State and federal grants	494,522	518,595
Investment income	4,854	3,920
Net cash provided by noncapital financing activities	<u>499,376</u>	<u>522,515</u>
Cash flows from capital and related financing activities:		
Cash payments for related party	(458)	156,655
Cash payments for capital acquisitions	(30,363)	0
Cash received from sale of investments	0	32,241
Cash payments for purchases of investments	(3,902)	(35,200)
Cash payments for capital lease	(12,648)	(12,244)
Cash received/payments for fraud loss	41,427	(41,427)
Cash received/payments for other capital and related financing activities	(1,297)	0
Net cash provided by (used in) capital and related financing activities	<u>(7,241)</u>	<u>100,025</u>
Net increase in cash and cash equivalents	105,104	61,895
Cash and cash equivalents at beginning of year	313,669	251,774
Cash and cash equivalents at end of year	<u>\$ 418,773</u>	<u>\$ 313,669</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (424,328)	\$ (569,185)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	19,161	17,503
(Increase) decrease in assets:		
Accounts receivable	39,569	52,493
Deferred inflows of resources	0	(84,655)
Increase (decrease) in liabilities:		
Accounts payable	30,333	(4,648)
Accrued wages and benefits	(51,828)	(1,552)
Prepaid expenses	4,124	
Payroll withholdings payable	(4,062)	29,399
Total adjustments	<u>37,297</u>	<u>8,540</u>
Net cash used in operating activities	<u>\$ (387,031)</u>	<u>\$ (560,645)</u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

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. Upon expiration of the contract, the Academy was approved for operation under a contract with St. Aloysius (Sponsor) commencing August 1, 2013 which expires on June 30, 2015.

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 8 non-certified and 27 certified full-time teaching personnel who provide services to approximately 262 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 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, 2013 and 2012

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 Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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 position. 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 position.

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, 2013 and 2012

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, 2013 and 2012 was \$19,161 and \$17,503, respectively.

Purchased Services: The Academy purchased services in the amount of \$202,000 and \$181,072 for the years ended June 30, 2013 and 2012, respectively.

This includes the following at June 30:

	2013	2012
Busing and transportation fees	\$ 11,105	\$ 11,016
Professional development	31,516	30,408
Professional and legal	35,407	44,664
Maintenance services	34,753	43,524
Nursing services	22,597	0
Technical services	31,323	12,041
Copier lease	9,237	14,459
Other general services	26,062	24,960
	<u>\$ 202,000</u>	<u>\$ 181,072</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 Position: Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. For 2013 and 2012, the Academy did not have any deferred outflows and deferred inflows. The net position component "net investment in capital assets," consists of 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 position 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, 2013 and 2012

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 position 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, 2013 and 2012. 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, 2013 and 2012. 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 2009, 2010, and 2011 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, 2013 and 2012

NOTE C—DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2013 and 2012, the carrying amount of the Academy's deposits was \$418,773 and \$313,669, respectively, and the bank balances were \$442,674 and \$325,649, 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, 2013 and 2012, \$194,453 and \$74,354 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, 2013 and 2012 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, 2013 and 2012

NOTE C – DEPOSITS AND INVESTMENTS – CONTINUED

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

	2013				
	Fair Value	Purchases	Sales	Unrealized	Fair Value
	Beg. of Year	At Cost	At Cost	Gain (Loss)	
International Equity Mutual Funds	\$ 34,311	\$ 24,700	\$ 3,603	\$ 2,642	\$ 58,050
Equity Mutual Funds	98,012	13,500	11,767	8,869	108,614
Fixed Mutual Funds	26,937	0	8,692	553	18,798
Common Stock	20,242	0	0	1,192	21,434
	<u>\$ 179,502</u>	<u>\$ 38,200</u>	<u>\$ 24,062</u>	<u>\$ 13,256</u>	<u>\$ 206,896</u>
	2012				
	Fair Value	Purchases	Sales	Unrealized	Fair Value
	Beg. of Year	At Cost	At Cost	Gain (Loss)	
International Equity Mutual Funds	\$ 45,580	\$ 8,400	\$ 10,843	\$ (8,826)	\$ 34,311
Equity Mutual Funds	116,924	500	13,833	(5,579)	98,012
Fixed Mutual Funds	0	26,300	0	637	26,937
Common Stock	19,890	0	0	352	20,242
	<u>\$ 182,394</u>	<u>\$ 35,200</u>	<u>\$ 24,676</u>	<u>\$ (13,416)</u>	<u>\$ 179,502</u>

NOTE D – STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2013 and 2012 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 2013 and 2012, 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. During the year ended June 30, 2013, the School received an insurance recovery payment of \$41,427 for an employee theft claim made in prior year.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

NOTE E—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 premium, up to \$477 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, 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 2013, 2012 and 2011, 13.1%, 12.7%, and 11.81% of annual covered salary were the portions used to fund pension obligations.

The remaining 0.9% 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, 2013, 2012, and 2011 were \$24,953, \$30,037, and \$7,125, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

NOTE F—DEFINED BENEFIT PENSION PLANS—CONTINUED

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.

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.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

NOTE F—DEFINED BENEFIT PENSION PLANS—CONTINUED

Funding Policy - For the fiscal years ended June 30, 2013, 2012 and 2011, 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, 2013, 2012 and 2011, were \$68,824, \$161,694, and \$116,991, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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, 2013, 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, 2013 and 2012

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 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 2013, 2012 and 2011, 0.16%, 0.55%, and 1.43% 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 2013, 2012, and 2011, this amount was \$20,525, \$35,800, and 35,800, respectively. During fiscal years 2013, 2012, and 2011, the Academy paid surcharges of \$0, \$3,292, and \$2,379, 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, 2013, 2012, and 2011 were \$305, \$1,301, and \$1,669, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, 2012 and 2011, the actuarially required allocation was 0.74%, 0.75%, and .76% of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,410, \$1,774, and \$887 respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

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 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 2013 and 2012, 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, 2013, 2012, and 2011 were \$5,294, \$12,438, and \$8,357, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

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 are 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, 2013 and 2012.

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 2013 and 2012 these reviews resulted in adjustments of \$0 and (\$17,097), respectively.

Litigation: The School is party to legal proceedings. The School is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

NOTE I—LEASE COMMITMENTS

Operating Lease:

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 Academy is responsible for paying all taxes, utilities and maintenance costs. On July 1, 2013, the Academy renewed this lease for an additional three years, expiring June 30, 2016.

Total rent expense was \$358,897 for both years ended June 30, 2013 and 2012. Future minimum rental payments as of June 30, 2013, are as follows:

2014	\$	358,897
2015	\$	358,897
2016	\$	358,897
	\$	<u>1,076,691</u>

Capital Lease:

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 lease agreement with Toshiba Business Solutions is for three copiers totaling \$40,956 with related accumulated depreciation in the amount of \$18,430 and \$10,239 for the years ended June 30, 2013 and 2012, respectively, and are leased under an arrangement which qualify as a capital lease.

Future minimum rental payments as of June 30, 2013, are as follows:

2014	\$	<u>24,329</u>
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NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

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 (to) from related party in the amount of \$(18,976) 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 payable resulted from the Academy insurance reimbursement net of expenses in the amount of \$18,976 for Akros during fiscal year ended June 30, 2013. The receivable resulted from the Academy paying net expenses in the amount of \$18,519 for Akros during fiscal year ended June 30, 2012.

NOTE K—RECLASSIFICATIONS

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. Such reclassifications had no effect on previously reported net income.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

EDGE LEARNING, INC.
dba THE EDGE ACADEMY

June 30, 2013 and 2012

NOTE L— IMPLEMENTATION OF NEW ACCOUNTING STANDARD

For fiscal year 2013, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements." GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the Academy's financial statements.

For fiscal year 2013, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". GASB Statement No. 63 established standards for the reporting of net position which was previously referred to as net assets. The Academy's implementation had no effect on the amount of beginning net position.

For fiscal year 2013, the Academy has also implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities". GASB Statement No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Academy.

NOTE M— SUBSEQUENT EVENTS

In July 2013, the Academy entered into a sixty-three-month lease agreement with Toshiba Business Solution for three copiers and four tablets. This lease commences in August 2013, expiring in November 2018. Monthly payment for the use of this equipment is \$2,111.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Edge Learning, Inc.
dba The Edge Academy
Akron, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Edge Learning, Inc., dba The Edge Academy, Summit County, Ohio (the Academy), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Edge Learning, Inc., dba The Edge Academy, Ohio's basic financial statements and have issued our report thereon dated January 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Edge Learning, Inc., dba The Edge Academy, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Edge Learning, Inc., dba The Edge Academy, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of Edge Learning, Inc., dba The Edge Academy, Ohio's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as **Finding 2012/2013-001** 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 the deficiency described in the accompanying Schedule of Findings and Responses as **Finding 2012/2013-002** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Edge Learning, Inc., dba The Edge Academy, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as **Finding 2012/2013-001**.

Edge Learning, Inc., dba The Edge Academy, Ohio's Responses to Findings

Edge Learning, Inc., dba The Edge Academy, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Academy's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

James G. Zupka,
CPA, President
James G. Zupka, CPA, Inc.

Certified Public Accountants

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G.
Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.02.07 15:10:08 -05'00'

January 24, 2014

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Item Number 2012/2013-001 - Material Weakness/Noncompliance - GAAP Reporting

Statement of Condition/Criteria

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

- ◆ GAAP report submissions were not completed within the required time period as described by Ohio Revised Code.
- ◆ New GASB pronouncements were not properly implemented in the financial statements. They were subsequently adjusted in the financial statements.
- ◆ In 2013 and 2012, capital assets were overstated by \$18,926 and \$2,200, respectively, due to additions being recorded on a tax basis rather than on a cost basis. The overstatements were subsequently adjusted in the financial statements.
- ◆ Accounts payable was overstated by \$11,930 in 2013, due to building improvements that were performed in fiscal year 2014. Accounts payable was also overstated in 2012, due to building repairs that were performed in fiscal year 2013. These were subsequently corrected in the financial statements.
- ◆ In 2013 and 2012, accrued wages were overstated by \$25,959 and \$23,098, respectively, due to wages earned during the summer which were included in the accrued wage amount. These overstatements were subsequently adjusted in the financial statements.
- ◆ The Academy has not implemented a GAAP Conversion Policy governing the compilation, review, and presentation of the financial statements.

Cause/Effect

The Academy is not in compliance with Ohio Revised Code regarding submission of financial statements. Also, capital assets, accounts payable, and accrued wages were initially reported in error.

Recommendation

We recommend that the Academy draft, approve, and implement a GAAP Conversion Policy. The Policy should address the Academy's practices for governing compiling, reviewing, and presenting the financial report of the Academy. We also recommend that management review the draft GAAP journal entries and draft financial statements to help ensure they are supported by sufficient and accurate documentation, free of errors and omissions, and consistent with the Academy's financial expectations. Implementation of and adherence to such procedures will assist the Academy in avoiding financial statement errors, and also help disclose to the reader any significant variation from the prior audit period.

Client Response

The Academy will implement this recommendation in fiscal year 2014.

EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
(CONTINUED)

Item Number 2012/2013-002 - Significant Deficiency - Payroll Service

Statement of Condition/Criteria

The Academy contracted its 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 is operating effectively, to 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.

Cause/Effect

There is a lack of assurance over payroll transactions processed by the payroll service organization.

Recommendation

We recommend that the Academy implement procedures to ensure the completeness and accuracy of payroll transactions processed by its third party administrator. AT Section 01, *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 unmodified 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) should provide the Academy with an appropriate level of assurance that payroll is being processed completely and accurately.

We also recommend that the Academy specify, in its contract with the third party administrator, that an annual Type 2 SOC 1 Report be issued and provided to the Academy within a timely manner. We recommend the Academy then review the report to determine the adequacy of the service organization's internal control system. The Type 2 SOC 1 Report should be conducted in accordance with the AICPA's standards by a firm that is registered and considered in good standing with the Accountancy Board of Ohio.

Client Response

The Academy will implement this recommendation in fiscal year 2014.

**EDGE LEARNING, INC.
dba THE EDGE ACADEMY
SUMMIT COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding No. 2011-001	Material Weakness - Financial Statement Adjustments: Several material financial statement errors were identified and adjusted during the audit.	No	Repeated as Finding 2012/2013-001
Finding No. 2011-002	Significant Deficiency - Payroll Processing? 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 2012/2013-002

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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**INDEPENDENT AUDITOR'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Directors
Edge Learning, Inc.
dba The Edge Academy
Akron, Ohio

To the Board of Directors:

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

1. As of our report date of January 24, 2014, the Academy's anti-harassment policy did not include the following requirements from Ohio Revised Code Section 3313.666(B):
 - a. A procedure for documenting any prohibited incident that is reported;
 - b. A requirement that the Academy administration semi-annually provide the President of the Academy's Board a written summary of all reported incidents and post the summary on its web site. If the Academy 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
2. We noted that the Academy did not amend its anti-harassment policy to prohibit harassment, intimidation, or bullying on a school bus. We also noted that the policy did not include the electronic form and violence within a dating relationship within its definition of harassment, intimidation, or bullying. Ohio Revised Code Section 3313.666 required the Academy to amend its definition by September 28, 2010.

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 for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G.
Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.02.07 15:10:47 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

January 24, 2014



Dave Yost • Auditor of State

EDGE LEARNING, INC. DBA 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, 2014**