

**Wildwood Environmental Academy
Lucas County**

**Financial Report
June 30, 2007**



Mary Taylor, CPA
Auditor of State

Board of Directors
Wildwood Environmental Academy
c/o The Leona Group
4660 South Hagadorn Road, Ste 500
East Lansing, MI 48823

We have reviewed the *Independent Auditor's Report* of the Wildwood Environmental Academy, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2006 through June 30, 2007. 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 Wildwood Environmental Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 7, 2007

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Wildwood Environmental Academy Lucas County

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Independent Auditor's Report

To the Board of Directors
Wildwood Environmental Academy

We have audited the accompanying basic financial statements of Wildwood Environmental Academy as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2007 and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. We did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

November 9, 2007

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

To the Board of Directors
Wildwood Environmental Academy

We have audited the basic financial statements of Wildwood Environmental Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated November 9, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wildwood Environmental Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wildwood Environmental Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wildwood Environmental 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following control deficiency to be a significant deficiency in internal control over financial reporting:

- Bonuses should be recorded as an expense in the year the bonuses were earned. The Academy mistakenly recorded twice the current year bonus accrual. An adjustment to decrease the expense and the accrual for \$2,343 is included in the summary of unrecorded possible adjustments. Currently, total expenses and liabilities are overstated by this amount. We recommend that someone other than the person recording the entry review the detail of the accruals to ensure that they are properly recorded and the balances are accurate.

To the Board of Directors
Wildwood Environmental Academy

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the following significant deficiencies are material weaknesses:

1. The Academy's management agreement includes a clause stating that the Academy shall pay The Leona Group, LLC an annual year-end fee in an amount equal to 50 percent of the audited excess of revenues over expenditures, if any. The year-end fee was omitted from the Academy's records prior to the audit of the financial statements, resulting in an audit adjustment of \$40,660 to increase the payable and related expense. In order to prevent and detect such misstatements from occurring in the future, we recommend the accounting personnel review all significant agreements annually to ensure the financial effects, if any, are properly reflected in the accounting records.
2. The Academy's addendum to the lease agreement includes a clause that the Academy shall pay the lessor an additional \$50 of rent for each child that enrolls in the Academy in excess of 125 students. The additional rent was omitted from the Academy's records prior to the audit of the financial statements, resulting in an audit adjustment of \$32,650 to increase the payable and related expense. In order to prevent and detect such misstatements from occurring in the future, we recommend the accounting personnel review the lease agreements annually to ensure the financial effects, if any, are properly reflected in the accounting records.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wildwood Environmental Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters 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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

To the Board of Directors
Wildwood Environmental Academy

- Ohio Revised Code Section 3314.03A states that community schools established prior to April 8, 2003 must be nonprofit corporations under ORC 1702. The Academy was established prior to April 8, 2003 and was subsequently denied nonprofit status under Section 501(c)(3) under the Internal Revenue Code because of the previous board of director's relationship with the management company. The board was recently reorganized in order to comply with the provisions for nonprofit status. Actions have since been taken to obtain nonprofit status. In addition, Ohio Revised Code Section 3314.082 prohibits community schools from using foundation money to pay taxes, including federal, state, and local income taxes, sales taxes, and personal and real property taxes. However, the Academy's for-profit status requires it to pay income taxes. We recommend that the Academy continue to monitor and follow-up on any issues related to obtaining nonprofit status.

We also noted certain immaterial instances of noncompliance and other matters that we have reported to the management of Wildwood Environmental Academy in a separate letter dated November 9, 2007.

This report is intended for the information and use of management, the board of directors, the Sponsor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 9, 2007

Wildwood Environmental Academy Lucas County

Management's Discussion and Analysis

The discussion and analysis of Wildwood Environmental Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. 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 notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*, issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets (deficit) increased \$40,659, which represents a 53 percent increase from 2006. The change in net assets is similar to the change in net assets in 2006.
- Total assets decreased \$124,504, which represents a 23 percent decrease from 2006. This was primarily due to a decrease in cash.
- Liabilities decreased \$165,163, which represents a 27 percent decrease from 2006. This decrease was due primarily to a decrease in notes payable.

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 (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows.

Statement of Net Assets (Deficit)

The statement of net assets (deficit) answers the question, "How did we do financially during 2007?" This statement includes 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.

Wildwood Environmental Academy Lucas County

Management's Discussion and Analysis (Continued)

Table I provides a summary of the Academy's net assets for fiscal years 2007 and 2006:

TABLE I	June 30	
	2007	2006
Assets		
Current assets	\$ 129,349	\$ 251,476
Capital assets - Net	286,215	288,592
Total assets	415,564	540,068
Liabilities		
Current liabilities	260,932	394,898
Noncurrent liabilities	191,057	222,254
Total liabilities	451,989	617,152
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	66,482	39,496
Unrestricted	(102,907)	(116,580)
Total net assets (deficit)	\$ (36,425)	\$ (77,084)

Total assets decreased \$124,504. This was primarily due to a decrease in cash. Cash decreased by \$116,923 from 2006 to 2007. Intergovernmental receivables decreased by \$5,204 from 2006 to 2007, which was due to the timing of the receipt of grant funding. Capital assets, net of depreciation, decreased by \$2,377 from 2006 to 2007.

Wildwood Environmental Academy Lucas County

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets for fiscal years 2007 and 2006, as well as a listing of revenues and expenses.

TABLE 2	Year Ended June 30	
	2007	2006
Operating Revenues		
Foundation payments	\$ 1,422,429	\$ 1,155,673
Disadvantaged Pupil Impact Aid	93,917	109,786
Charges for services	13,004	14,201
Other	3,661	7,847
Nonoperating Revenues		
Federal grants	324,865	226,460
State grants	10,174	8,175
Total revenue	1,868,050	1,522,142
Operating Expenses		
Salaries	595,195	483,808
Fringe benefits	212,584	158,788
Purchased services	723,652	631,412
Materials and supplies	133,091	53,307
Depreciation (unallocated)	106,363	81,398
Other expenses	10,811	5,792
Nonoperating Expenses		
Interest	25,344	33,673
Taxes	20,351	7,803
Total expenses	1,827,391	1,455,981
Increase in Net Assets (Deficit)	\$ 40,659	\$ 66,161

Net assets (deficit) increased by \$40,659. This increase was similar to the increase in 2006. There was an increase in revenues of \$345,908 and an increase in expenses of \$371,410 from 2006. Of the increase in revenue, the foundation payments increased by \$266,756 and the Disadvantaged Pupil Impact Aid decreased by \$15,869.

Wildwood Environmental Academy Lucas County

Management's Discussion and Analysis (Continued)

Of the increase in expenses, the expense for salaries increased \$111,387 and the expense for fringe benefits increased \$53,796 from 2006. This was primarily due to an increase in staff during fiscal year 2007. The expense for purchased services increased \$92,240. The expense for materials and supplies increased \$79,784. Depreciation expense increased \$24,965.

Capital Assets

At the end of fiscal year 2007, the Academy had \$286,215 invested in leasehold improvements, furniture, fixtures, and equipment (net of depreciation), which represented an decrease of \$2,377 from 2006. Table 3 shows capital assets (net of depreciation) for fiscal years 2007 and 2006:

TABLE 3	2007	2006
Leasehold improvements	\$ 127,678	\$ 169,676
Furniture, fixtures, and equipment	158,537	118,916
Total capital assets	<u>\$ 286,215</u>	<u>\$ 288,592</u>

For more information on capital assets, see Note 5 to the basic financial statements.

Current Financial Issues

Wildwood Environmental Academy was formed in 2004 under a contract with the Ohio Council of Community Schools. During the 2006-2007 school year, there were 192 students enrolled in the Academy. The Academy receives most of its finances from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2007 amounted to \$1,516,346.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of Wildwood Environmental Academy, at 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

Wildwood Environmental Academy Lucas County

Statement of Net Assets (Deficit) June 30, 2007

Assets

Current assets:

Cash (Note 3)	\$ 102,986
Intergovernmental receivable (Note 4)	12,279
Prepaid expenses	<u>14,084</u>

Total current assets 129,349

Noncurrent assets - Depreciable capital assets - Net (Note 5) 286,215

Total assets 415,564

Liabilities

Current liabilities:

Accounts payable	104,151
Contracts payable (Note 14)	128,105
Capital lease payable - Current portion (Note 6)	<u>28,676</u>

Total current liabilities 260,932

Noncurrent liabilities - Capital lease payable - Noncurrent
portion (Note 6) 191,057

Total liabilities 451,989

Net Assets (Deficit)

Invested in capital assets - Net of related debt	66,482
Unrestricted	<u>(102,907)</u>

Total net assets (deficit) \$ (36,425)

Wildwood Environmental Academy Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2007

Operating Revenues	
Foundation payments	\$ 1,422,429
Disadvantaged Pupil Impact Aid	93,917
Charges for services	13,004
Other revenues	<u>3,661</u>
Total operating revenues	1,533,011
Operating Expenses	
Salaries	595,195
Fringe benefits	212,584
Purchased services (Note 11)	723,652
Materials and supplies	133,091
Depreciation	106,363
Other	<u>10,811</u>
Total operating expenses	<u>1,781,696</u>
Operating Loss	(248,685)
Nonoperating Revenues (Expenses)	
Federal grants	324,865
State grants	10,174
Federal and state taxes	(20,351)
Interest	<u>(25,344)</u>
Total nonoperating revenues	<u>289,344</u>
Change in Net Assets	40,659
Net Assets (Deficit) - Beginning of year	<u>(77,084)</u>
Net Assets (Deficit) - End of year	<u><u>\$ (36,425)</u></u>

Wildwood Environmental Academy Lucas County

Statement of Cash Flows Year Ended June 30, 2007

Cash Flows from Operating Activities

Received from foundation payments	\$ 1,422,429
Received from Disadvantaged Pupil Impact Aid	93,917
Received from other operating revenues	16,334
Payments to suppliers for goods and services	(906,591)
Payments to employees for services	(555,594)
Payments for employee benefits	<u>(212,584)</u>
Net cash used in operating activities	(142,089)

Cash Flows from Noncapital Financing Activities

Interest payments and fiscal charges	(9,707)
Payments on notes payable	(136,364)
Federal grants received	330,400
State grants received	10,174
Federal and state taxes	<u>(20,351)</u>
Net cash provided by noncapital financing activities	174,152

Cash Flows from Capital and Related Financing Activities

Interest payments and fiscal charges	(15,637)
Payments for capital acquisitions	(103,986)
Principal payments on capital lease obligation	<u>(29,363)</u>
Net cash used in capital and related financing activities	<u>(148,986)</u>

Net Decrease in Cash (116,923)

Cash - Beginning of year 219,909

Cash - End of year \$ 102,986

Wildwood Environmental Academy Lucas County

Statement of Cash Flows (Continued) Year Ended June 30, 2007

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (248,685)
Adjustments to reconcile operating loss to cash from operating activities:	
Depreciation	106,363
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(331)
Increase in accounts payable	57,505
Decrease in contracts payable	<u>(56,941)</u>
Total adjustments	<u>106,596</u>
Net cash used in operating activities	<u><u>\$ (142,089)</u></u>

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2007**

Note I - Description of the School and Reporting Entity

Wildwood Environmental Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression, and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, personal integrity and responsibility, and a willingness to exercise leadership in their educational and social interactions. Staff, students, and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. 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 other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

On April 2, 2003, the Academy was approved for operation under contract with the Ohio Council of Community Schools (the "Sponsor") for a period of four years through June 30, 2007. The contract has since been extended for a period of seven years through June 30, 2014. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The total Sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2007 was approximately \$45,000.

The Academy operates under the direction of a five-member board of directors, which also is the governing board for another The Leona Group, LLC-managed school (see Note 13). The board of directors 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 of directors controls the Academy's instructional/support facility staffed by 11 certified full-time teaching personnel who provide services to 192 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of the Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel, and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee (see Note 14).

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2007**

Note 2 - Summary of Significant Accounting Policies

The financial statements of Wildwood Environmental Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has also elected to follow private sector guidance issued after November 30, 1989 for its business-type activities. The more significant of the Academy's accounting policies are described below.

Basis of Presentation - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (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.

The Academy's basic financial statements consist of a statement of net assets (deficit), a statement of revenue, expenses, and changes in net assets (deficit), and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

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 (deficit). The statement of revenue, expenses, and changes in net assets (deficit) presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Wildwood Environmental Academy

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Notes to Financial Statements
June 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include 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.

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 contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

Intergovernmental Receivables - Receivables at June 30, 2007 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

Capital Assets - Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$1,000 for furniture and equipment, land, and buildings, or any one item costing under \$1,000 alone but purchased in a group for over \$2,500. Software costing more than \$10,000 per application will also be capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold improvements	4-5 years
Furniture, fixtures, and equipment	3-7 years

Net Assets - Net assets represent the difference between assets and liabilities. Invested 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. The Academy has approximately \$220,000 in debt related to capital assets.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as nonoperating.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Intergovernmental Revenues - The Academy currently participates in the state foundation program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Tax Status - The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2006 and has filed for an extension for fiscal year 2007. Amounts owed to the IRS and State of Ohio at June 30, 2007 are reported on the statement of net assets (deficit) as taxes payable, if significant.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 3 - Deposits

The Academy has designated two banks for the deposit of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$133,157 had \$33,051 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables is as follows:

Title I	\$ 10,230
Title II-D	1,615
Other	<u>434</u>
Total intergovernmental receivables	<u>\$ 12,279</u>

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Balance June 30, 2007
Business-type Activity			
Capital assets being depreciated:			
Leasehold improvements	\$ 267,651	\$ 18,385	\$ 286,036
Furniture, fixtures, and equipment	<u>151,192</u>	<u>85,601</u>	<u>236,793</u>
Total capital assets being depreciated	418,843	103,986	522,829
Less accumulated depreciation:			
Leasehold improvements	97,975	60,383	158,358
Furniture, fixtures, and equipment	<u>32,276</u>	<u>45,980</u>	<u>78,256</u>
Total accumulated depreciation	<u>130,251</u>	<u>106,363</u>	<u>236,614</u>
Total capital assets being depreciated - Net	<u>\$ 288,592</u>	<u>\$ (2,377)</u>	<u>\$ 286,215</u>

Note 6 - Long-term Debt

Debt activity during 2007 was as follows:

	Balance at July 1, 2006	Additions	Reductions	Balance at June 30, 2007	Due Within One Year
Capital lease payable - SMJ Properties LLC	\$ 249,096	\$ -	\$ (29,363)	\$ 219,733	\$ 28,676
Note payable - Citizens Bank	<u>136,364</u>	<u>-</u>	<u>(136,364)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 385,460</u>	<u>\$ -</u>	<u>\$ (165,727)</u>	<u>\$ 219,733</u>	<u>\$ 28,676</u>

Wildwood Environmental Academy

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Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

The Academy entered into a lease agreement as lessee for financing the purchase of leasehold improvements. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. Total value of the capitalized leasehold improvements was \$265,300, with accumulated depreciation of \$154,031 at year end. The future minimum lease obligations and the net present value are as follows:

2008	\$	41,250
2009		45,000
2010		45,000
2011		45,000
2012		45,000
2013		<u>45,000</u>
Total minimum lease payments		266,250
Less amount representing interest		<u>46,517</u>
Present value of minimum lease payments		<u>\$ 219,733</u>

Note 7 - 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. During fiscal year 2007, the Academy contracted with Employers Mutual Casualty Company for general liability, property insurance, and educational errors and omissions insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Coverages are as follows:

Educational errors and omissions:

Per occurrence	\$	8,000,000
Total per year		8,000,000

General liability:

Per occurrence		1,000,000
Total per year		2,000,000
Vehicle		1,000,000

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2007**

Note 7 - 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.

Note 8 - Defined Benefit Pension Plans

School Employees' Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, or by visiting the SERS Ohio website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salaries 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 healthcare benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS's retirement board. The Academy's required contributions for pension obligations to SERS for the years ended June 30, 2007, 2006, and 2005 were \$3,650, \$9,738, and \$3,964, respectively, equal to the required contributions for each year, of which 100 percent has been contributed for each of the fiscal years ended June 30, 2007, 2006, and 2005.

State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2007**

Note 8 - 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 base on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account.

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 8 - Defined Benefit Pension Plans (Continued)

The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$67,770, \$47,556, and \$22,914, respectively, equal to the required contributions for each year, of which 59 percent has been contributed for the fiscal year ended June 30, 2007 and 100 percent has been contributed for each of the fiscal years ended June 30, 2006 and 2005. Contributions to the DC and Combined Plans for the fiscal year 2007 were \$72,014 made by the Academy and \$51,439 made by the plan members.

Note 9 - Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for healthcare coverage. The STRS Ohio Board has statutory authority over how much, if any, of the healthcare cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$5,213 for fiscal year 2007.

STRS Ohio pays healthcare benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net healthcare costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing healthcare benefits. For the fiscal year ended June 30, 2007, employer contributions to the fund healthcare benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for the fiscal year 2006.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 9 - Postemployment Benefits (Continued)

In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Academy, the amount contributed to fund healthcare benefits, including the surcharge, during the 2007 fiscal year equaled \$1,135.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the healthcare fund. The target level for the healthcare reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for healthcare at June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of healthcare benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

Note 10 - 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 of the Academy. 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, 2007.

State Funding - The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2007, the results of this review are not concluded. However, in the opinion of management, any changes to enrollment data will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

Property Taxes - The Academy has applied for an exemption from general property taxes. As of June 30, 2007, the exemption has not been granted; yet, management believes that the exemption will be granted; therefore, the Academy has not paid its fiscal year 2006 or 2007 general property taxes, which total \$63,044.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 11 - Purchased Service Expense

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$ 19,849
Legal	1,141
Insurance	17,327
Advertising	5,574
Dues and fees	19,373
Ohio Council of Community Schools	45,490
The Leona Group, LLC (Note 14)	264,826
Cleaning services	16,800
Utility	45,617
Building lease agreement (Note 12)	117,154
Other professional services	160,861
Other rentals and leases	<u>9,640</u>
Total purchased services	<u>\$ 723,652</u>

Note 12 - Operating Leases

On July 21, 2004, the Academy entered into a lease for the period from September 1, 2004 through August 31, 2009 with SMJ Properties LLC, with an annual rent of \$84,504 due in equal monthly installments beginning September 1, 2004 for the use of a school facility. In addition to the minimum rent, the Academy is also responsible for paying \$50 of rent for each student enrolled at the Academy in excess of 125 students. Payments made under the lease totaled \$117,154 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities and applicable property taxes.

The Academy has the option to terminate the lease at any time more than three years after commencement of the lease by giving SMJ Properties, LLC six months' prior written notice if, either (i) any changes in any federal, state, or local law or regulation mandate the expenditure by lessee of \$100,000 or more to modify or improve the school facility and an acceptable lease amendment addressing that issue is not negotiated within the six-month period; or (ii) actual funding from the State of Ohio is reduced to such an extent that the Academy permanently ceases operation, provided that the Academy has sought adequate funding.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2007

Note 12 - Operating Leases (Continued)

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2007:

<u>Fiscal Years Ending June 30</u>	<u>Amount</u>
2008	\$ 84,504
2009	84,504
2010	<u>14,084</u>
Total minimum lease payments	<u>\$ 183,092</u>

Note 13 - Related Parties

Through February 2007, the Academy's governing board consisted of the same members as the governing boards for Paul Laurence Dunbar Academy, Eagle Academy, George A. Phillips Academy, Lake Erie Academy, and Toledo Preparatory Academy. Beginning in March 2007, the Academy's board consists of the same members as the governing board for Lake Erie Academy.

Note 14 - Management Agreement

The Academy entered into a contract, effective May 1, 2004 through June 30, 2007, with annual renewal options, with The Leona Group, LLC (TLG) for educational management services for all of the management, operation, administration, and education at the Academy. The management agreement was renewed effective August 8, 2007 for a period of seven years to continue through June 30, 2014. In exchange for its services, TLG receives a capitation fee of 12 percent of revenue and a year-end fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The Academy incurred a management fee totaling \$264,826 for the year ended June 30, 2007. At June 30, 2007, contracts payable include \$42,128 for the payment of management fees and approximately \$86,000 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

- Management of all personnel functions, including professional development
- Operation of the school building and the installation of technology integral to school design
- All aspects of the business administration of the Academy

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2007**

Note 14 - Management Agreement (Continued)

- The provision of food service for the Academy
- Any other function necessary or expedient for the administration of the Academy

The Academy may terminate this agreement with cause prior to the end of the term in the event that The Leona Group, LLC should fail to remedy a material breach within a period reasonable under the circumstances, but not less than 60 days after notice from the Academy.

The Leona Group, LLC may terminate this agreement with cause prior to the end of the specified term in the event the Academy fails to remedy a material breach within a period reasonable under the circumstances, but not less than 60 days after notice from The Leona Group, LLC.

In the event this agreement is terminated by either party prior to the end of the specified term, the termination will not become effective until the end of the school year following the notice of termination and The Leona Group, LLC shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

For the year ended June 30, 2007, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:	
Salaries	\$ 595,195
Fringe benefits	212,584
Professional and technical services	35,921
Other direct costs	14,309
Indirect expenses - Overhead	<u>-</u>
Total expenses	<u><u>\$ 858,009</u></u>



Mary Taylor, CPA
Auditor of State

WILDWOOD ENVIRONMENTAL ACADEMY

LUCAS 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
DECEMBER 20, 2007**