

**Wildwood Environmental Academy
Lucas County**

**Financial Report
June 30, 2006**



Mary Taylor, CPA
Auditor of State

Board of Directors
Wildwood Environmental Academy
1546 Dartford Road
Maumee, Ohio 43537

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, 2005 through June 30, 2006. 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

February 5, 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, 2006, 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, 2006 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006 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.

To the Board of Directors
Wildwood Environmental Academy

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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

September 29, 2006

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, 2006 and have issued our report thereon dated September 29, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
Wildwood Environmental Academy

We noted certain other matters we reported to the management of Wildwood Environmental Academy in a separate letter dated September 29, 2006.

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

September 29, 2006

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, 2006. 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 their 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 \$66,161, which represents a 46 percent increase from 2005. This increase was due primarily to an increase in state foundation monies.
- Total assets increased \$183,153, which represents a 51 percent increase from 2005. This was primarily due to an increase in cash.
- Liabilities increased \$116,992, which represents a 23 percent increase from 2005. This increase was due to an increase 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, and a statement of cash flows.

Statement of Net Assets

The statement of net assets (deficit) answers the question, "How did we do financially during 2006?" 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 2006 and 2005:

TABLE I	June 30	
	2006	2005 (Restated)
Assets		
Current assets	\$ 251,476	\$ 101,882
Capital assets - Net	288,592	255,033
Total assets	540,068	356,915
Liabilities		
Current liabilities	394,898	248,704
Noncurrent liabilities	222,254	251,456
Total liabilities	617,152	500,160
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	39,496	(23,778)
Unrestricted	(116,580)	(119,467)
Total net assets (deficit)	<u>\$ (77,084)</u>	<u>\$ (143,245)</u>

Total assets increased \$183,153. This was primarily due an increase in cash. Cash increased by \$145,860 from 2005. Intergovernmental receivables increased by \$2,192. This increase was due to the timing of the receipt of some grants. Capital assets, net of depreciation, increased by \$33,559 primarily due to the additions of furniture, fixtures, and equipment.

Wildwood Environmental Academy Lucas County

Management's Discussion and Analysis (Continued)

Table 2 shows the changes in net assets for fiscal years 2006 and 2005, as well as a listing of revenues and expenses.

TABLE 2

	June 30	
	2006	2005
		(Restated)
Operating Revenues		
Foundation payments	\$ 1,155,673	\$ 408,143
Disadvantaged pupil impact aid	109,786	55,869
Charges for services	14,201	7,812
Other	7,847	126
Nonoperating Revenues		
Federal grants	226,460	191,175
State grants	8,175	5,443
Total revenue	1,522,142	668,568
Operating Expenses		
Salaries	483,808	212,739
Fringe benefits	158,788	90,888
Purchased services	631,412	337,136
Materials and supplies	53,307	98,840
Depreciation (unallocated)	81,398	48,853
Other expenses	5,792	2,348
Nonoperating Expenses		
Interest	33,673	18,611
Taxes	7,803	2,398
Total expenses	1,455,981	811,813
Increase (Decrease) in Net Assets	\$ 66,161	\$ (143,245)

Net assets increased by \$66,161. This was primarily due to increased state foundation monies. There was an increase in revenues of \$853,574 and an increase in expenses of \$644,168 from 2005. Of the increase in revenue, the foundation payments increased by \$747,530 and the Disadvantaged Pupil Impact Aid increased by \$53,917. Community schools receive no support from tax revenues.

Wildwood Environmental Academy Lucas County

Management's Discussion and Analysis (Continued)

The expense for salaries increased \$271,069 and the expense for fringe benefits increased \$67,900 from 2005. This was primarily due to an increase in staff during fiscal year 2006. Depreciation expense increased \$32,545.

Capital Assets

At the end of fiscal year 2006, the Academy had \$288,592 invested in leasehold improvements, furniture, fixtures, and equipment (net of depreciation), which represented an increase of \$33,559 from 2005. Table 3 shows capital assets (net of depreciation) for fiscal years 2006 and 2005:

TABLE 3	2006	2005
		(Restated)
Leasehold improvements	\$ 169,676	\$ 223,259
Furniture, fixtures, and equipment	118,916	31,774
Total capital assets	\$ 288,592	\$ 255,033

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 2005-2006 school year, there were 177 students enrolled in the Academy. The Academy receives most of its finances mostly from state sources. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2006 amounted to \$1,265,459.

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, 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, 2006

Assets

Current assets:

Cash (Note 3)	\$ 219,909
Intergovernmental receivable (Note 4)	17,483
Prepaid expenses	<u>14,084</u>
Total current assets	251,476

Noncurrent assets - Depreciable capital assets - Net (Note 5)	<u>288,592</u>
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Total assets	540,068
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Liabilities

Current liabilities:

Accounts payable	46,646
Contracts payable (Note 14)	185,046
Capital lease payable - Current portion (Note 6)	26,842
Note payable (Note 6)	<u>136,364</u>

Total current liabilities	394,898
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Noncurrent liabilities - Capital lease payable - Noncurrent portion (Note 6)	<u>222,254</u>
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Total liabilities	<u>617,152</u>
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Net Assets (Deficit)

Invested in capital assets - Net of related debt	39,496
Unrestricted	<u>(116,580)</u>

Total net assets (deficit)	<u><u>\$ (77,084)</u></u>
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Wildwood Environmental Academy Lucas County

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2006

Operating Revenues	
Foundation payments	\$ 1,155,673
Disadvantaged pupil impact aid	109,786
Charges for services	14,201
Other revenues	<u>7,847</u>
Total operating revenues	1,287,507
Operating Expenses	
Salaries	483,808
Fringe benefits	158,788
Purchased services (Note 11)	631,412
Materials and supplies	53,307
Depreciation	81,398
Other	<u>5,792</u>
Total operating expenses	<u>1,414,505</u>
Operating Loss	(126,998)
Nonoperating Revenues (Expenses)	
Federal grants	226,460
State grants	8,175
Federal and state taxes	(7,803)
Interest	<u>(33,673)</u>
Total nonoperating revenues	<u>193,159</u>
Change in Net Assets	66,161
Net Assets (Deficit) - Beginning of year, as restated (Note 15)	<u>(143,245)</u>
Net Assets (Deficit) - End of year	<u><u>\$ (77,084)</u></u>

Wildwood Environmental Academy Lucas County

Statement of Cash Flows Year Ended June 30, 2006

Cash Flows from Operating Activities

Received from foundation payments	\$ 1,155,673
Received from Disadvantaged Pupil Impact Aid	109,786
Received from other operating revenues	25,759
Payments to suppliers for goods and services	(692,749)
Payments to employees for services	(442,769)
Payments for employee benefits	<u>(158,788)</u>
Net cash used in operating activities	(3,088)

Cash Flows from Noncapital Financing Activities

Proceeds from notes payable	500,000
Interest payments and fiscal charges	(14,638)
Payments on notes payable	(393,636)
Federal grants received	220,557
State grants received	8,175
Federal and state taxes	<u>(7,803)</u>
Net cash provided by noncapital financing activities	312,655

Cash Flows from Capital and Related Financing Activities

Interest payments and fiscal charges	(32,546)
Payments for capital acquisitions	(114,957)
Payments on capital lease obligation	<u>(16,204)</u>
Net cash used in capital and related financing activities	<u>(163,707)</u>

Net Increase in Cash 145,860

Cash - Beginning of year 74,049

Cash - End of year \$ 219,909

Wildwood Environmental Academy Lucas County

Statement of Cash Flows (Continued) Year Ended June 30, 2006

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (126,998)
Adjustments to reconcile operating loss to cash used in operating activities:	
Depreciation	81,398
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	3,711
Increase in prepaid items	(1,542)
Decrease in accounts payable	(2,443)
Increase in contracts payable	<u>42,786</u>
 Total adjustments	 <u>123,910</u>
 Net cash used in operating activities	 <u><u>\$ (3,088)</u></u>

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 1 - 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 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, 2006 was approximately \$38,000.

The Academy operates under the direction of a five-member board of directors, which also is the governing board for five other The Leona Group, LLC Schools (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 certificated full-time teaching personnel who provide services to 177 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 its 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, 2006**

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, a statement of revenue, expenses, and changes in net assets, 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 changes in net assets 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 Lucas County

**Notes to Financial Statements
June 30, 2006**

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 does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

Intergovernmental Receivable - Receivables at June 30, 2006 consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items 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, 2006

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 \$249,000 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 2005 and has filed for an extension for fiscal year 2006. Amounts owed to the IRS and State of Ohio at June 30, 2006 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, 2006

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 \$240,388 had \$126,466 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 - Receivables

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

Title I	\$	13,391
Child nutrition		3,189
Other		<u>903</u>
Total intergovernmental receivables	\$	<u><u>17,483</u></u>

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006 is as follows:

	Balance June 30, 2005, as restated	Additions	Balance June 30, 2006
Business-type Activity			
Capital assets being depreciated:			
Leasehold improvements	\$ 267,651	-	\$ 267,651
Furniture, fixtures, and equipment	<u>36,235</u>	<u>114,957</u>	<u>151,192</u>
Total capital assets being depreciated	303,886	114,957	418,843
Less accumulated depreciation:			
Leasehold improvements	(44,392)	(53,583)	(97,975)
Furniture, fixtures, and equipment	<u>(4,461)</u>	<u>(27,815)</u>	<u>(32,276)</u>
Total accumulated depreciation	<u>(48,853)</u>	<u>(81,398)</u>	<u>(130,251)</u>
Total capital assets being depreciated - Net	<u>\$ 255,033</u>	<u>\$ 33,559</u>	<u>\$ 288,592</u>

Note 6 - Note and Capital Lease Payables

Debt activity during 2006 was as follows:

	Balance at July 1, 2005, as restated	Additions	Reductions	Balance at June 30, 2006	Due Within One Year
Capital lease payable - SMJ Properties LLC	\$ 265,300	\$ -	\$ (16,204)	\$ 249,096	\$ 26,842
Note payable - Citizens Bank	<u>30,000</u>	<u>500,000</u>	<u>(393,636)</u>	<u>136,364</u>	<u>136,364</u>
Total	<u>\$ 295,300</u>	<u>\$ 500,000</u>	<u>\$ (409,840)</u>	<u>\$ 385,460</u>	<u>\$ 163,206</u>

The Academy entered into a loan with Citizens Bank for \$500,000 on September 8, 2005. The note has an interest rate of 5.06 percent and has a maturity date of September 5, 2006.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 6 - Note and Capital Lease Payables (Continued)

Amortization of the above note payable is scheduled as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2007	<u>\$ 136,364</u>

Capital Lease - The Academy has 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 \$97,277 at year end. The future minimum lease obligations and the net present value are as follows:

2007	\$ 41,250
2008	45,000
2009	45,000
2010	45,000
2011	45,000
2012-2013	<u>90,000</u>
Total minimum lease payments	311,250
Less amount representing interest	<u>62,154</u>
Present value of minimum lease payments	<u>\$ 249,096</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 2006, the Academy contracted with EMC Insurance Company for general liability, property insurance, and educational errors and omissions insurance.

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 7 - Risk Management (Continued)

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

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

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 state statute per Chapter 3309 of the Ohio Revised Code. The School Employees' Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 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.

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 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 year 2005 (latest year available), 10.57 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' retirement board. The Academy's contributions to SERS for the years ended June 30, 2006 and 2005 were \$9,738 and \$3,964, respectively, equal to the required contributions for each year, of which 45 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal year 2005.

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 8 - Defined Benefit Pension Plans (Continued)

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.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the formula benefit, the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio Service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the money-purchase benefit calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 8 - Defined Benefit Pension Plans (Continued)

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

Wildwood Environmental Academy Lucas County

**Notes to Financial Statements
June 30, 2006**

Note 8 - Defined Benefit Pension Plans (Continued)

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005 (latest year available), were 10 percent of covered payroll for members, and 14 percent for employers; 13 percent was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006 and 2005 were \$47,556 and \$22,914, respectively, equal to the required contributions for each year, of which 96 percent has been contributed for the fiscal year ended June 30, 2006 and 100 percent for the fiscal year ended June 30, 2005.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested 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.

Note 9 - Postemployment Benefits

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 9 - Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2005 (latest year available), the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005 (latest year available), the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including the surcharge, was \$3,160 for fiscal year 2006.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2005 (latest year available) were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (latest year available), the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of benefit recipients currently receiving health care benefits is 58,123 (for the fiscal year ended June 30, 2005, latest year available).

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the "Board") has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

Wildwood Environmental Academy

Lucas County

Notes to Financial Statements June 30, 2006

Note 9 - Postemployment Benefits (Continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005 (latest year available), the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005 (latest year available).

For the Academy, this amount equaled \$3,658 during the 2006 fiscal year. For the fiscal year ended June 30, 2005 (latest year available), net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients (for the fiscal year ended June 30, 2005, latest year available).

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, 2006.

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 2006, 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, 2006.

Property Taxes - The Academy has applied for an exemption from general property taxes. As of June 30, 2006, 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 general property taxes, which total \$25,016.

Wildwood Environmental Academy

Lucas County

Notes to Financial Statements

June 30, 2006

Note 11 - Purchased Service Expense

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and maintenance	\$	12,403
Legal		2,406
Insurance		16,831
Advertising		19,677
Dues and fees		10,475
Ohio Council of Community Schools		37,805
The Leona Group, LLC (Note 14)		248,818
Cleaning services		15,168
Utility		27,486
Building lease agreement (Note 12)		107,454
Other professional services		127,745
Other rentals and leases		<u>5,144</u>
Total purchased services	\$	<u>631,412</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. 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 \$107,454 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 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, 2006

Note 12 - Operating Leases (Continued)

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2006:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 84,504
2008	84,504
2009	84,504
2010	<u>14,084</u>
Total minimum lease payments	<u>\$ 267,596</u>

Note 13 - Related Parties

The Academy's governing board consists of the same members as the governing boards for Eagle Academy, Lake Erie Academy, George A. Phillips Academy, Paul Laurence Dunbar Academy, and Toledo Accelerated 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. 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 \$248,818 for the year ended June 30, 2006. At June 30, 2006, contracts payable include \$141,535 for the payment of management fees and approximately \$44,000 for reimbursement of subcontracted employees and other operating costs. Terms of the contracts require TLG to provide the following:

- Implementation and administration of the Educational Program
- 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, 2006**

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 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 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.

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 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, 2006, The Leona Group, LLC incurred the following expenses on behalf of the Academy:

Direct expenses:

Salaries	\$ 483,808
Fringe benefits	158,788
Professional and technical services	23,497
Other direct costs	18,636
Indirect expenses - Overhead	<u>-</u>
Total expenses	<u>\$ 684,729</u>

Wildwood Environmental Academy Lucas County

Notes to Financial Statements June 30, 2006

Note 15 - Prior Period Adjustment

Net asset balance at the beginning of 2006 has been adjusted to properly recognize management fee expense, interest expense on capital lease, and depreciation expense on leasehold improvements incurred in the prior year. The adjustment had no effect on the net change in net assets for 2006.

Net Assets (Deficit) - Beginning of year, as previously reported	\$ (12,281)
Prior period adjustments:	
Proper recognition of management fees	(73,236)
Proper recognition of depreciation expense	(44,217)
Proper recognition of interest expense	<u>(13,511)</u>
Net Assets (Deficit) - Beginning of year, as restated	<u>\$ (143,245)</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
FEBRUARY 20, 2007**