VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Victory Academy of Toledo
Lucas County
3319 Nebraska Avenue
Toledo, Ohio 43607-2819

To the Governing Board:

We have audited the accompanying basic financial statements of Victory Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our dated April 24, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 24, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The discussion and analysis of Victory Academy of Toledo's (the Academy) 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.

Financial Highlights

- Total Assets were $238,988.
- Total Liabilities were $141,785.
- Change in Net Assets was $117,785.

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the Academy's net assets at June 30, 2006. Fiscal year 2005 was the initial period of operation, and was not a full fiscal year. No comparison is made to prior year information.

(Table 1)
Net Assets

Assets	
Current Assets	$ 56,915
Capital Assets, Net	182,073
Total Assets	238,988
Liabilities	
Current Liabilities	141,785
Total Liabilities	141,785
Net Assets	
Invested in Capital Assets	182,073
Restricted	21,689
Unrestricted	(106,559)
Total Net Assets	$ 97,203

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

(Table 2)
Change in Net Assets

Operating Revenues:		
Foundation Payments	$	485,720
Poverty Based Assistance		124,778
Special Education		25,029
Other		2,855
Non-Operating Revenues:		
Federal Grants		426,859
State Grants		7,019
Contributions and Donations		1,365
Interest		56
Total Revenues		1,073,681
Operating Expenses		
Salaries		431,535
Fringe Benefits		84,727
Purchased Services		261,483
Materials and Supplies		108,278
Depreciation		35,396
Other Expenses		33,952
Non-Operating Expenses:		
Interest and Fiscal Charges		525
Total Expenses		955,896
Increase in Net Assets	$	117,785

State Foundation Payments, Poverty-Based Assistance, and Special Education, as a whole, are the primary support for the Academy, representing 99.6 percent of the operating revenue. Salaries and Fringe Benefits comprise 54 percent of operating expenses.

The Academy had total revenues of $1,073,681, and total expenses of $955,896. The change in net assets for the year was an increase of $117,785. This means the Academy is meeting its obligations.

Capital Assets

At June 30, 2006, the Academy had $182,073 (net of $35,704 in accumulated depreciation) invested in leasehold improvements, furniture, fixtures, and equipment. Table 3 shows balances at June 30, 2006:

(Net of Depreciation)	
Leasehold Improvements	$ 57,118
Furniture, Fixtures, and Equipment	124,955
Totals	$ 182,073

For more information on capital assets see Note 4 to the basic financial statements.

Debt

At June 30, 2006, the School had $8,975 in outstanding debt, all of which is due within one year. For more information regarding the Academy's debt see Note 12 to the basic financial statements.

Current Financial Issues

The Academy's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the period July 1, 2005, to June 30, 2006, there were approximately 99 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,283 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Renee Marazon, Principal, 3319 Nebraska Avenue, Toledo, Ohio, 43607-2819 or e-mail at renee@marazon.com.

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets	
Current Assets	
Cash and Cash Equivalents	$ 19,100
Intergovernmental Receivable	35,606
Prepaid Items	2,209
Total Current Assets	56,915
Non-Current Assets	
Depreciable Capital Assets, Net	182,073
Total Non-Current Assets	182,073
Total Assets	238,988
Liabilities	
Current Liabilities	
Accounts Payable	57,939
Accrued Wages and Benefits	57,701
Intergovernmental Payable	16,946
Accrued Interest Payable	224
Notes Payable	8,975
Total Current Liabilities	141,785
Total Liabilities	141,785
Net Assets	
Invested in Capital Assets, Net of Related Debt	182,073
Restricted for Grants	21,689
Unrestricted	(106,559)
Total Net Assets	$ 97,203

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues	
Foundation Payments	$ 485,720
Poverty Based Assistance	124,778
Special Education	25,029
Other Revenues	2,855
Total Operating Revenues	638,382
Operating Expenses	
Salaries	431,535
Fringe Benefits	84,727
Purchased Services	261,483
Materials and Supplies	108,278
Depreciation	35,396
Other	33,952
Total Operating Expenses	955,371
Operating Loss	(316,989)
Non-Operating Revenues and Expenses	
Operating Grants - Federal	426,859
Operating Grants - State	7,019
Interest	56
Interest and Fiscal Charges	(525)
Other	1,365
Total Non-Operating Revenues and Expenses	434,774
Change in Net Assets	117,785
Net Assets Beginning of Year	(20,582)
Net Assets End of Year	$ 97,203

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$ 493,416
Cash Received from Special Education	25,029
Cash Received from Poverty Based Assistance	124,778
Cash Received from Other Operating Revenues	2,855
Cash Payments to Suppliers for Goods and Services	(322,592)
Cash Payments to Employees for Services	(384,968)
Cash Payments for Employee Benefits	(81,091)
Cash Payments for Other Operating Uses	(31,376)
Net Cash Used for Operating Activities	(173,949)
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	391,253
Operating Grants Received	7,019
Cash Received from Other Noncapital Activities	1,365
Net Cash Provided by Noncapital Financing Activities	399,637
Cash Flows from Capital and Related Financing Activities	
Proceeds from Notes Payable	162
Payments for Capital Acquisitions	(211,366)
Payments for Principal	(7,687)
Payments for Interest and Fiscal Charges	(586)
Net Cash Used for Capital and Related Financing Activities	(219,477)
Cash Flows from Investing Activities	
Interest	56
Net Cash Provided by Investing Activities	56
Net Increase in Cash and Cash Equivalents	6,267
Cash and Cash Equivalents at Beginning of Year	12,833
Cash and Cash Equivalents at End of Year	$ 19,100

(Continued)

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (316,989)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	35,396
Changes in Assets and Liabilities	
Decrease in Prepaid Items	210
Increase in Accounts Payable	50,132
Increase in Accrued Wages and Benefits	48,904
Increase in Intergovernmental Payable	8,398
Total Adjustments	143,040
Net Cash Used for Operating Activities	$ (173,949)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Victory Academy of Toledo, Inc. (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's mission is to provide students in Kindergarten through grade 8 an individualized, standards-based education that uses students' emerging interests and needs, in an interactive, hands-on, life based approach to the teaching learning process and thus develop self-regulated learners who love to learn. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing May 4, 2004. 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 sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy (See Note 9).

The Academy operates under the direction of a Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 2 non-certificated, 11 certificated full time teaching personnel who provide services to 99 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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.

B. 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

C. 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.

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.

Non-exchange 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.

D. Budgetary Process

The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for the presentation on the statement of net assets, investments with original maturities of three month or less at the time they are purchased by the Academy are considered to be cash equivalents.

During the year ended 2006, the Academy had only deposits.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Poverty Based Assistance, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

G. 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 services are consumed.

H. 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 does not maintain a capitalization policy and does not possess any infrastructure. 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Leasehold Improvements	15 years
Furniture, Fixtures, and Equipment	5 years

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. 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 from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

K. 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.

NOTE 3 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits. At fiscal year end June 30, 2006, the carrying amount of the Academy's deposits was $19,100 and the bank balance was $22,657. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, $22,657 was covered by the Federal Depository Insurance Corporation and not exposed to custodial credit risk.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

NOTE 4 - CAPITAL ASSETS

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

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Capital Assets:				
Leasehold Improvements		$ 61,198		$ 61,198
Furniture, Fixtures, and Equipment	$ 6,411	150,168		156,579
Total Capital Assets	6,411	211,366		217,777
Less Accumulated Depreciation:				
Leasehold Improvements		(4,080)		(4,080)
Furniture, Fixtures, and Equipment	(308)	(31,316)		(31,624)
Total Accumulated Depreciation	(308)	(35,396)		(35,704)
Total Capital Assets Being Depreciated, Net	6,103	175,970		182,073

NOTE 5 - RISK MANAGEMENT

A. 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 the period ending June 30, 2006, the Academy contracted with Philadelphia Insurance Companies for general liability and property insurance, auto coverage and employee benefits liability insurance.

Coverage is as follows:

Commercial General Liability per occurrence	$	1,000,000
Commerical General Liability aggregate		2,000,000
Commercial General Liability Personal & Advertising Injury		1,000,000
Employee Benefit Liability per occurrence		1,000,000
Commercial Auto coverage		1,000

The Academy owns no property, but leases a facility located at 3319 Nebraska Avenue, Toledo, Ohio (See Note 11).

B. 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.

C. Employee, Medical, Dental, Vision, Prescription, and Life Benefits

The Academy contracted through the Lucas County Educational Service Center to provide employee medical, dental, and vision insurance to its employees. The Academy and employees share the cost of the monthly premiums for all selected coverage (medical, dental and/or vision).

NOTE 6 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

NOTE 6 - DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The employer rate for period ending June 30, 2006 was 14 percent of annual covered payroll; 10.57 percent 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 required contribution for pension obligations to SERS for the period ending June 30, 2006 and 2005, was $1,368 and $211; respectively; 97.2 percent was contributed for fiscal year June 30, 2006, and 100 percent was made for fiscal year 2005. $38 represents the unpaid contribution for the period ended 2006. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System of Ohio

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 is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from 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 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% 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%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% 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% instead of 2.2%. 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.

NOTE 6 - 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% 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 – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% 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' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer 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% 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 dependent. 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.

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 these active 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. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

NOTE 6 - DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year June 30, 2006, 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. The Academy's required contribution for pension obligations for the fiscal year June 30, 2006 and 2005, were $43,951 and $5,325; 90.1 percent was contributed for fiscal year June 30, 2006 and 100 percent was made for fiscal year 2005. $4,344 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, 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% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 3.42 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 2006, the minimum pay was established at $35,800. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the year ending June 30, 2005 (the latest information available), were $178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168% 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% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year 2006, the Board allocated employer contributions equal to 3.42 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the Academy, the amount to fund health care benefits, including surcharge, equaled $1,384 for the fiscal year 2006.

NOTE 7 - POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System

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 plan 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 the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was $3.3 billion as of June 30, 2005. For the Academy, this amount equaled $3,488 for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2005 (the latest information available) net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

NOTE 8 - CONTINGENCIES

A. 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.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of said review, the Academy's state foundation funding will be decreased $7,696 during FY 2006. This amount is reflected as an Intergovernmental Payable.

NOTE 8 – CONTINGENCIES – (Continued)

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Victory Academy of Toledo is not presently determinable.

NOTE 9 – FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center (the Sponsor) to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Sponsor two percent of the per pupil allotment paid to the Academy from the State of Ohio. The contract payments of $16,486 were paid during the year, and a liability in the amount of $1,793 was accrued for the period ending June 30, 2006.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

A. Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor's or any other Community School's funds;

B. Maintain all books and accounts of all funds of the Academy;

C. Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;

D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;

E. Invest funds of the Academy in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other Community School; and

F. Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 10 – PURCHASED SERVICES

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

Professional and Technical Services	$	163,843
Property Services		70,574
Travel Mileage/Meeting Expense		5,162
Communications		3,667
Pupil Transportation Services		18,237
Total Purchased Services	$	261,483

NOTE 11 – OPERATING LEASES

The Academy signed an operating lease for the period February 1, 2005, through June 30, 2010, with St. James Holiness Church of God in Christ to lease a school facility. Payments made totaled $72,000 for the fiscal year June 30, 2006.

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

Year Ended June 30:		
2007	$	78,000
2008		78,000
2009		78,000
2010		78,000
Total	$	312,000

NOTE 12 – NOTES PAYABLE

On April 28, 2005, the Academy entered into a revolving line of credit, establishing a note for $10,000 payable on demand, with Key Bank. The loan is collateralized by all business assets.

On March 31, 2005 the Academy received a $12,000 loan from Lucas County Educational Service Center (LCESC) that was payable in 6 equal monthly payments of $2,000 starting May 1, 2005. This loan is not collateralized.

Short-Term Debt	Balance 07/01/05	Additions	Reductions	Balance 06/30/06
Note - Key Bank	9,500	$ 162	$ 2,687	$ 6,975
Note - LCESC	7,000		5,000	2,000
	$ 16,500	$ 162	$ 7,687	$ 8,975

NOTE 13 – RELATED PARTY TRANSACTIONS

Reimbursements totaling $74,387 were made to various board members, board member's spouses and to companies owned by board members on behalf of the Academy.

Three of the board members received salaries totaling $139,495 for services provided the Academy.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Victory Academy of Toledo
Lucas County
3319 Nebraska Avenue
Toledo, Ohio 43607-2819

To the Governing Board:

We have audited the financial statements of Victory Academy of Toledo, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2006, and have issued our report thereon dated April 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated April 24, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2006-001. In a separate letter to the Academy's management dated April 24, 2007, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and Sponsor. It is not intended for and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 24, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Finding For Recovery – Repaid during Audit

During fiscal year 2006, the Academy has reimbursed Renee Marazon, Principal, for receipts she submitted. The reimbursements made to Ms. Marazon on September 30, 2005, and June 12, 2006, included previously reimbursed receipts. The total amount overpaid was $582.16.

In accordance with the forgoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Renee Marazon, Victory Academy Principal, Richard Cox, Fiscal Agent, and Travelers Casualty and Surety Company of America, Mr. Cox's surety, jointly and severally in the amount of $582.16 and in favor of the Victory Academy of Toledo.

On March 13, 2007, Renee Marazon reimbursed Victory Academy in the amount of $582.16.

Officials Response

The Director was in agreement with the Finding.

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Finding For Recovery Overpayment of a teacher	Yes	
2005-002	Finding for Recovery Overpayment of Lease	Yes	

Mary Taylor, CPA
Auditor of State

VICTORY ACADEMY OF TOLEDO

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
MAY 17, 2007

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