



**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

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**Auditor of State
Betty Montgomery**

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, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof 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 June 22, 2006, 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.

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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 22, 2006

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005, the initial period of operation. 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 \$21,355.
- Total Liabilities were \$41,937.
- Total Net Assets were \$(20,582).

Using this Financial Report

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

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 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.

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)

Table 1 provides a summary of the Academy's net assets at June 30, 2005. As this is the initial period of operation, no comparison is made to prior year information:

(Table 1)
Net Assets

Assets	
Current Assets	\$ 15,252
Capital Assets, Net	<u>6,103</u>
<i>Total Assets</i>	<u>21,355</u>
Liabilities	
Current Liabilities	<u>41,937</u>
<i>Total Liabilities</i>	<u>41,937</u>
Net Assets	
Invested in Capital Assets	6,103
Unrestricted	<u>(26,685)</u>
<i>Total Net Assets</i>	<u>\$ (20,582)</u>

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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

(Table 2)
Change in Net Assets

Change in Net Assets	
Operating Revenues:	
Foundation Payments	\$ 78,574
Disadvantaged Pupil Impact Aid	8,891
Special Education	2,421
Other	501
Non-Operating Revenues:	
Federal Grants	33,342
Interest	8
<i>Total Revenues</i>	123,737
 Operating Expenses	
Salaries	42,954
Fringe Benefits	10,760
Purchased Services	67,171
Materials and Supplies	14,621
Depreciation	308
Other Expenses	7,645
Non-Operating Expenses:	
Interest and Fiscal Charges	860
<i>Total Expenses</i>	144,319
<i>(Decrease) in Net Assets</i>	\$ (20,582)

State Foundation Payments, Disadvantaged Pupil Impact Aid, and Special Education, as a whole, are the primary support for the Academy, representing 99.4 percent of the operating revenue. Salaries and Fringe Benefits comprise 37.4 percent of operating expenses.

The Academy had total revenues of \$123,737, and total expenses of \$144,319. The change in net assets for the year was a decrease of \$20,582. This decrease is a result of high start-up costs and the Academy not receiving State funding till May of 2005.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets

At June 30, 2005, the Academy had \$6,103 (net of \$308 in accumulated depreciation) invested in computers and equipment. Table 3 shows balances at June 30, 2005:

(Table 3)
Capital Assets at June 30, 2005
(Net of Depreciation)

Computers	\$ 2,312
Equipment	3,791
Totals	<u>\$ 6,103</u>

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

Debt

At June 30, 2005, the School had \$16,500 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 November 1, 2004, to June 30, 2005, there were approximately 40 students enrolled in the Academy. The Academy receives its finances mostly from state aid.

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, 2005

Assets

Current Assets

Cash and Cash Equivalents	\$ 12,833
Prepaid Items	2,419
Total Current Assets	<u>15,252</u>

Non-Current Assets

Depreciable Capital Assets, Net	<u>6,103</u>
Total Non-Current Assets	<u>6,103</u>

Total Assets	<u>21,355</u>
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Liabilities

Current Liabilities

Accounts Payable	7,807
Accrued Wages and Benefits	8,797
Intergovernmental Payable	8,548
Accrued Interest Payable	285
Notes Payable	<u>16,500</u>
Total Current Liabilities	<u>41,937</u>

<i>Total Liabilities</i>	<u>41,937</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	6,103
Unrestricted	<u>(26,685)</u>

<i>Total Net Assets</i>	<u>\$ (20,582)</u>
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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, 2005**

Operating Revenues	
Foundation Payments	\$ 78,574
Disadvantaged Pupil Impact Aid	8,891
Special Education	2,421
Other Revenues	501
	<hr/>
<i>Total Operating Revenues</i>	<i>90,387</i>
	<hr/>
Operating Expenses	
Salaries	42,954
Fringe Benefits	10,760
Purchased Services	67,171
Materials and Supplies	14,621
Depreciation	308
Other	7,645
	<hr/>
<i>Total Operating Expenses</i>	<i>143,459</i>
	<hr/>
<i>Operating Loss</i>	<i>(53,072)</i>
	<hr/>
Non-Operating Revenues and Expenses	
Operating Grants - Federal	33,342
Interest	8
Interest and Fiscal Charges	(860)
	<hr/>
<i>Total Non-Operating Revenues and Expenses</i>	<i>32,490</i>
	<hr/>
<i>Change in Net Assets</i>	<i>(20,582)</i>
	<hr/>
Net Assets Beginning of Year	
	<hr/>
<i>Net Assets End of Year</i>	<i>\$ (20,582)</i>
	<hr/> <hr/>

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, 2005

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Foundation Payments	\$ 78,574
Cash Received from Special Education	2,421
Cash Received from Disadvantaged Pupil Impact Aid	8,891
Cash Received from Other Operating Revenues	501
Cash Payments to Suppliers for Goods and Services	(76,992)
Cash Payments to Employees for Services	(34,157)
Cash Payments for Employee Benefits	(623)
Cash Payments for Other Operating Uses	<u>(8,646)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(30,031)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Federal Grants Received	<u>33,342</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>33,342</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Proceeds from Notes Payable	22,000
Payments for Capital Acquisitions	(6,411)
Payments for Principal	(5,500)
Payments for Interest and Fiscal Charges	<u>(575)</u>
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<u>9,514</u>
<u>Cash Flows from Investing Activities</u>	
Interest	<u>8</u>
<i>Net Cash Provided by Investing Activities</i>	<u>8</u>
<i>Net Increase in Cash and Cash Equivalents</i>	12,833
Cash and Cash Equivalents at Beginning of Year	<u> </u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 12,833</u></u>

(Continued)

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

**Reconciliation of Operating Loss to Net
Cash Used for Operating Activities**

Operating Loss \$ (53,072)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	308
Changes in Assets and Liabilities	
(Increase) in Prepaid Items	(2,419)
Increase in Accounts Payable	7,807
Increase in Accrued Wages and Benefits	8,797
Increase in Intergovernmental Payable	8,548

Total Adjustments 23,041

Net Cash Used for Operating Activities \$ (30,031)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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'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. This is the initial period of operations.

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 1 non-certificated, 3 certificated full time teaching personnel who provide services to 40 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.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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 School and its Sponsor. 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.

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 the presentation on the balance sheet, investments with original maturities of three month or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During the year ended 2005, the Academy had only deposits.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, 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.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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, 2005, 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:

<u>Description</u>	<u>Estimated Lives</u>
Computers	5 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.

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.

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.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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 or collateral securities that are in the possession of an outside party. At fiscal year end, none of the Academy's bank balance of \$23,256 was exposed to custodial credit risk. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

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, 2005, was as follows:

	Balance 7/1/04	Additions	Deletions	Balance 6/30/05
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment		\$6,411		\$6,411
Total Capital Assets				
Being Depreciated		6,411		6,411
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment		(308)		(308)
Total Accumulated Depreciation		(308)		(308)
Total Capital Assets				
Being Depreciated, Net		\$6,103		\$6,103

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, 2005, 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

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - RISK MANAGEMENT – (Continued)

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 (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 plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 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 a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the period ending June 30, 2005, was \$211; no payments were contributed for fiscal year ended June 30, 2005. \$211 represents the unpaid contribution for fiscal year 2005. 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 administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEFINED BENEFIT PENSION PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or on an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DCP and the DBP. In the CP, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DBP into the DCP or the CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the fiscal year ended June 30, 2005, was \$5,325; no payments were contributed for fiscal year ended June 30, 2005. \$5,230 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

NOTE 7 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$402 for the fiscal year ended June 30, 2005.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 - POSTEMPLOYMENT BENEFITS – (Continued)

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. 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.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. 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, the minimum pay was established at \$27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, for the fiscal year ended June 30, 2005, equaled \$2,012.

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. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, 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, 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 sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

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, 2005.

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 \$2,802 during FY 2006.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 – CONTINGENCIES – (Continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for a review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 9 – FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent of the per pupil allotments paid to the Academy from the State of Ohio. The amount paid to Fiscal Agent for the fiscal year ended June 30, 2005, totaled \$1,798 and a liability in the amount of \$926 was accrued for the year ended June 30, 2005.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial 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 all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- 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 Director of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 – PURCHASED SERVICES

For the fiscal year ended June 30, 2005, purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	\$	26,700
Property Services		34,087
Travel Mileage/Meeting Expense		1,630
Communications		2,726
Pupil Transportation Services		1,028
Utilities		1,000
Total Purchased Services		\$ 67,171

NOTE 11 – OPERATING LEASES

The Academy signed an operating lease for the period February 1, 2005, through June 1, 2010, with St. James Holiness Church of God in Christ to lease a school facility. Payments made totaled \$25,000 for the period February 1, 2005, to June 30, 2005.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2005:

Year Ended June 30:		
2006	\$	81,500
2007		78,000
2008		78,000
2009		78,000
2010		78,000
Total		\$ 393,500

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 07/01/04	Additions	Reductions	Balance 06/30/05
Note - Key Bank		\$ 10,000	\$ 500	\$ 9,500
Note - LCESC		12,000	5,000	7,000
		\$ 22,000	\$ 5,500	\$ 16,500

**VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 – RELATED PARTY TRANSACTION

Reimbursements totaling \$15,050 were made to various board members, board member's spouses and to a company owned by two of the board members on behalf of the Academy.

Two of the board members received salaries of \$5,000 each for services provided the Academy.

NOTE 14 – TAX EXEMPT STATUS

The Academy has filed for its tax exempt status under § 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.

NOTE 15 – SUBSEQUENT EVENTS

The Academy received notification they were awarded a federal start-up grant in the amount of \$300,000 for FY 2006.



**Auditor of State
Betty Montgomery**

**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 basic financial statements of Victory Academy of Toledo, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated June 22, 2006. 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 in order 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 June 22, 2006, 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the Academy's management dated June 22, 2006, we reported another matter related to noncompliance we deemed immaterial.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

This report is intended for the information and use of management, Finance Committee, the Governing Board, and Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 22, 2006

VICTORY ACADEMY of TOLEDO
LUCAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

Finding For Recovery Repaid Under Audit

Victory Academy of Toledo overpaid a teacher, Kelli Moore, \$1,504.83 in FY 2005. This was the result of payments for services rendered being paid by the Academy from both the payroll and non-payroll account.

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 Kelli Moore, Richard Cox, Fiscal Agent, and Travelers Casualty and Surety Company of America, Mr. Cox's surety, jointly and severally in the amount of \$1,504.83 and in favor of the Victory Academy of Toledo.

A payment plan has been established between the Academy and Kelli Moore. As of June 22, 2006, \$836.00 of the overpayment has been recovered and \$668.83 is still owed to the Academy.

Officials Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-002

Finding For Recovery Repaid Under Audit

Victory Academy of Toledo paid St James Holiness COGIC (dba as The Armory) \$1,204 for custodial services for February, March, and May of 2005. However, the operating lease for the building signed by the Academy (Lessee) and St. James Holiness COGIC (Lessor) stated the lessor would provide basic janitorial services as part of the lease agreement.

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 St James Holiness COGIC (dba as The Armory), Richard Cox, Fiscal Agent, and Travelers Casualty and Surety Company of America, Mr. Cox's surety, jointly and severally in the amount of \$1,204 and in favor of the Victory Academy of Toledo.

St James Holiness COGIC has repaid the Academy the \$1,204.

Officials Response

We did not receive a response from Officials to this finding.



**Auditor of State
Betty Montgomery**

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800-282-0370

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**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
JULY 20, 2006**