VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

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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, 2007, 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 Victory Academy of Toledo, Lucas County, Ohio, as of June 30, 2007, and the respective changes in 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 March 17, 2008, 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.

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

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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

March 17, 2008

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were $363,704.
- Total Liabilities were $78,825.
- Change in Net Assets was $187,676.

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.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2007?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets at June 30, 2007. Comparison to the prior year information is also made.

(Table 1)
Net Assets

	2007	2006
Assets		
Current Assets	$ 34,969	$ 56,915
Capital Assets, Net	328,735	182,073
Total Assets	363,704	238,988
Liabilities		
Current Liabilities	78,825	141,785
Total Liabilities	78,825	141,785
Net Assets		
Invested in Capital Assets	325,069	182,073
Restricted	2,035	21,689
Unrestricted	(42,225)	(106,559)
Total Net Assets	$ 284,879	$ 97,203

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the fiscal year. That is, it identifies the amount of operating expenses supported by State and other funding. Again, comparison is made to prior fiscal year information.

(Table 2)
Change in Net Assets

	2007	2006
Operating Revenues:		
Foundation Payments	$ 777,157	$ 485,720
Poverty Based Assistance		124,778
Special Education	16,985	25,029
Extracurricular Activities	8,490	
Food Services	3,717	
Classroom Fees	1,185	
Other	3,830	2,855
Total Operating Revenues	811,364	638,382
Operating Expenses		
Salaries	450,593	431,535
Fringe Benefits	126,001	84,727
Purchased Services	346,477	261,483
Materials and Supplies	97,447	108,278
Depreciation	117,840	35,396
Other Expenses	11,807	33,952
Total Operating Expenses	1,150,165	955,371
Non-Operating Revenues and Expenses:		
Federal Grants	315,085	426,859
State Grants	211,469	7,019
Contributions and Donations	500	1,365
Interest	79	56
Interest and Fiscal Charges	(656)	(525)
Total Expenses	526,477	434,774
Increase in Net Assets	$ 187,676	$ 117,785

State Foundation Payments 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 50.1 percent of operating expenses.

The Academy had total revenues of $1,338,497, and total expenses of $1,150,821. The change in net assets for the year was an increase of $187,676. This means the Academy is meeting its obligations.

Capital Assets

At June 30, 2007, the Academy had $328,735 (net of $153,544 in accumulated depreciation) invested in leasehold improvements and furniture, fixtures, and equipment. Table 3 shows balances at June 30, 2007 and a comparison to June 30, 2006:

(Table 3)
Capital Assets at June 30, 2007
(Net of Depreciation)

	2007	2006
Leasehold Improvements	$ 235,095	$ 57,118
Furniture, Fixtures, and Equipment	93,640	124,955
Totals	$ 328,735	$ 182,073

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

Debt

At June 30, 2007, the Academy had $3,666 in outstanding debt, all of which is due within one year. For more information regarding the Academy's debt see Note 6 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, 2006, to June 30, 2007, there were approximately 116 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,403 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, 2007

Assets	
Current Assets	
Cash and Cash Equivalents	$ 13,915
Intergovernmental Receivable	11,749
Prepaid Items	9,305
Total Current Assets	34,969
Non-Current Assets	
Depreciable Capital Assets, Net of Accumulated Depreciation	328,735
Total Assets	363,704
Liabilities	
Current Liabilities	
Accounts Payable	17,292
Accrued Wages and Benefits	41,241
Intergovernmental Payable	16,626
Notes Payable	3,666
Total Liabilities	78,825
Net Assets	
Invested in Capital Assets, Net of Related Debt	325,069
Restricted for Grants	2,035
Unrestricted	(42,225)
Total Net Assets	$ 284,879

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, 2007

Operating Revenues	
Foundation Payments	$ 777,157
Special Education	16,985
Extracurricular Activities	8,490
Food Services	3,717
Classroom Fees	1,185
Other Revenues	3,830
Total Operating Revenues	811,364
Operating Expenses	
Salaries	450,593
Fringe Benefits	126,001
Purchased Services	346,477
Materials and Supplies	97,447
Depreciation	117,840
Other	11,807
Total Operating Expenses	1,150,165
Operating Loss	(338,801)
Non-Operating Revenues and Expenses	
Operating Grants - Federal	315,085
Operating Grants - State	211,469
Contributions and Donations	500
Interest	79
Interest and Fiscal Charges	(656)
Total Non-Operating Revenues and Expenses	526,477
Change in Net Assets	187,676
Net Assets Beginning of Year	97,203
Net Assets End of Year	$ 284,879

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	$ 766,470
Cash Received from Special Education	16,985
Cash Received from Extracurricular Activities	8,490
Cash Received from Food Services	3,717
Cash Received from Classroom Fees	1,185
Cash Received from Other Operating Revenues	3,830
Cash Payments to Suppliers for Goods and Services	(482,723)
Cash Payments to Employees for Services	(464,716)
Cash Payments for Employee Benefits	(125,996)
Cash Payments for Other Operating Uses	(15,717)
Net Cash Used for Operating Activities	(288,475)
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	341,933
Operating Grants Received	211,469
Contributions and Donations	500
Net Cash Provided by Noncapital Financing Activities	553,902
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(264,502)
Payments for Principal	(5,309)
Payments for Interest and Fiscal Charges	(880)
Net Cash Used for Capital and Related Financing Activities	(270,691)
Cash Flows from Investing Activities	
Interest	79
Net Increase in Cash and Cash Equivalents	(5,185)
Cash and Cash Equivalents at Beginning of Year	19,100
Cash and Cash Equivalents at End of Year	$ 13,915

(Continued)

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	$	(338,801)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities		
Depreciation		117,840
Changes in Assets and Liabilities		
Increase in Intergovernmental Receivable		(2,991)
Increase in Prepaid Items		(7,096)
Decrease in Accounts Payable		(40,647)
Decrease in Accrued Wages and Benefits		(16,460)
Decrease in Intergovernmental Payable		(320)
Total Adjustments		50,326
Net Cash Used for Operating Activities	$	(288,475)

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 12).

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 7 non-certificated and 10 certificated full time teaching personnel who provide services to 116 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 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 3314.03(A)(11)(d) 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 2007, the Academy had only deposits.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation 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.

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, 2007, 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 maintains 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	Life of the lease
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 creditors, grantors, 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, 2007, the carrying amount of the Academy's deposits was $13,915 and the bank balance was $55,736. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, $55,736 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 – RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental receivables arising from grants, entitlement and shared revenues, and state foundation adjustment. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Title I	$ 3,473
Title IV	617
Title IIA	3,877
Title V	225
Title IID	566
Foundation (See Note 11B)	2,991
Total Receivables	$ 11,749

NOTE 5 - CAPITAL ASSETS

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

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Capital Assets:				
Leasehold Improvements	$ 61,198	$ 264,502		$ 325,700
Furniture, Fixtures, and Equipment	156,579			156,579
Total Capital Assets	217,777	264,502		482,279
Less Accumulated Depreciation:				
Leasehold Improvements	(4,080)	(86,525)		(90,605)
Furniture, Fixtures, and Equipment	(31,624)	(31,315)		(62,939)
Total Accumulated Depreciation	(35,704)	(117,840)		(153,544)
Total Capital Assets Being Depreciated, Net	182,073	146,662		328,735

NOTE 6 – 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 07/01/06	Additions	Reductions	Balance 06/30/07
Note - Key Bank	6,975		$ 5,309	$ 1,666
Note - LCESC	2,000			$ 2,000
	$ 8,975		$ 5,309	$ 3,666

NOTE 7 – OPERATING LEASES

The Academy signed an operating lease, and amendments, 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 $83,250 for the fiscal year ended June 30, 2007.

The Academy signed an operating lease for 60 months effective May 2007 with Bank of America Leasing for the use of a copier. Payments made totaled $535 for the fiscal year ended June 30, 2007.

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

NOTE 7 – OPERATING LEASES – (Continued)

Year Ended June 30:	Building Lease	Copier Lease	Total
2008	$ 84,450	3210	$ 87,660
2009	84,450	3210	87,660
2010	84,450	3210	87,660
2011		3211	3,211
2012		2676	2,676
Total	$ 253,350	$ 15,517	$ 268,867

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $10,620, $1,368 and $211 respectively; 25.01 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. $7,964 represents the unpaid contribution for the period ended 2007. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were $48,320, $43,951, and $5,326 respectively; 96.57 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. $1,659 represents the unpaid contribution for fiscal year 2007. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, all members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $3,717 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients. For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $4,032.

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 projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 10 - 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, 2007, 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
Products/Completed Operations aggregate		2,000,000
Business Personal Property		200,000
Damage to Rented Premises per occurrence		100,000
Computer/Equipment Coverage		90,000
Medical Expenses (any one person)		5,000

The Academy owns no property, but leases a facility located at 3319 Nebraska Avenue, Toledo, Ohio (See Note 7).

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 11 - 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, 2007.

NOTE 11 – CONTINGENCIES – (Continued)

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 did not receive the full amount of foundation funding due to them. The Academy will receive an additional $2,991 in FY 2008; this amount is reflected as an Intergovernmental Receivable on the financial statements.

C. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

NOTE 12 – 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 (2%) of the per pupil allotment paid to the Academy from the State of Ohio. The contract payments of $20,242 were paid during the year, and a liability in the amount of $1,322 was accrued for the period ending June 30, 2007.

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 the funds of the Sponsor or any other Community School; and

NOTE 12 – FISCAL AGENT – (Continued)

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 13 – PURCHASED SERVICES

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

Professional and Technical Services	$	193,824
Property Services		118,683
Travel Mileage/Meeting Expense		3,677
Communications		11,931
Pupil Transportation Services		18,254
Other Purchased Services		108
Total Purchased Services	$	346,477

NOTE 14 – RELATED PARTY TRANSACTIONS

Reimbursements totaling $7,491 were made to the Academy's Principal, her husband, her company, and to the Office Manager's husband, on behalf of the Academy. Both the Principal and the Office Manager are non-voting members of the Board.

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, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 17, 2008. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated March 17, 2008.

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 no instances of noncompliance or other matters that we must report under *Government Auditing Standards.* We did note a certain noncompliance matter that we reported to the Academy's management in a separate letter dated March 17, 2008.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and the Academy's Sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 17, 2008

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Financial Reporting

Material Weakness

The Academy should have procedures in place to prevent or detect material misstatements for the accurate presentation of the Academy's financial statements and related disclosures. Errors were identified in calculating and posting journal entries to the financial statements during the GAAP conversion process which affected intergovernmental revenue, capital assets and the related depreciation, accounts payable, intergovernmental payable, and expenditures, resulting in eleven material audit adjustments totaling $615,869.

The failure to record financial activity on the financial statements could result in material misstatements and inaccurate financial reporting.

We recommend due care be exercised in the calculation and preparation of the financial statements. Further, we recommend the Academy implement review procedures to detect material financial statement errors.

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

VICTORY ACADEMY OF TOLEDO
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Finding For Recovery Overpayment to Principal	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
APRIL 1, 2008

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