



**Auditor of State
Betty Montgomery**

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

The ISUS Institute of Manufacturing
Montgomery County
140 North Keowee Street
Dayton, Ohio 45402-1309

To the Board of Governance:

We have audited the accompanying financial statements of the business-type activities of The ISUS Institute of Manufacturing, Montgomery County, (the School), as of and for the fiscal year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of School, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 February 27, 2006, on our consideration of the School'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.

Managements 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 require. 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

February 27, 2006

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of The ISUS Institute of Manufacturing's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for the period ended June 2005 are as follows:

- The School began full operation in September 2004 and served approximately ninety-nine students during the 2004-2005 school year.
- The School acquired \$67,333 in equipment and accumulated \$82,455 in leasehold improvements.
- The School reported an operating loss for the fiscal year 2005 of (\$83,921) with an increase in net assets of \$204,544.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in accumulated deficit/net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

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

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

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

Table 1 provides a summary of the School's net assets for fiscal year 2005.

**Table 1
Net Assets**

	<u>2005</u>
Assets:	
Current and other assets	\$127,901
Capital assets, net	<u>145,024</u>
Total Assets	<u>272,925</u>
Liabilities:	
Current liabilities	<u>68,416</u>
Total Liabilities	68,416
Net Assets:	
Invested in capital assets	145,024
Unrestricted	<u>59,485</u>
Total Net Assets	<u><u>\$ 204,509</u></u>

As noted in Table 1, total net assets at June 30, 2005 were \$204,509, an increase in net assets of \$204,544.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

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

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005.

**Table 2
Change in Net Assets**

	2005
Operating Revenues:	
Foundation Payments	\$677,775
Disadvantage Pupil Impact Aid	11,879
Non Operating Revenues:	
State and Federal grants	200,524
On Behalf Payments	87,941
Total Revenues	978,119
Operating Expenses:	
Salaries	229,985
Fringe benefits	48,439
Purchased Services	480,713
Materials and supplies	9,588
Depreciation	4,764
Other expenses	86
Total Expenses	773,575
Increase in net assets	204,544
Net assets, beginning of year	(35)
Net assets, end of year	\$204,509

The increase in revenues and expenditures is the result of the School beginning full operations in fiscal year 2005.

**THE ISUS INSTITUTE OF MANUFACTURING
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets

At June 30, 2005 capital assets of the School were \$149,788 off-set by \$4,764 in accumulated depreciation resulted in net capital assets of \$145,024. Table 3 shows the categories of capital assets maintained by The School, net of accumulated depreciation, at June 30, 2005 and 2004.

**Table 3
Capital Assets, Net of
Depreciation**

	<u>2005</u>
Leasehold improvements	\$82,455
Equipment	67,333
Less:	
Accumulated Depreciation	<u>(4,764)</u>
Totals	<u>\$145,024</u>

The School acquired \$67,333 in equipment to begin operations and accumulated \$82,455 in leasehold improvements to renovate space into classrooms.

Debt

At June 30, 2005, the School did not have any debt obligations.

Contacting the School

This financial report is designed to provide a general overview of the finances of The ISUS Institute of Manufacturing and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: The ISUS Institute of Manufacturing, 140 N. Keowee St., Dayton, OH 45402.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

Assets

Current Assets

Cash and Cash Equivalents	\$26,773
Accounts Receivable	87,941
Intergovernmental Receivable	<u>13,187</u>

Total Current Assets

127,901

Non-Current Assets (Net Accumulated Depreciation)

Equipment	62,569
Leasehold Improvements	<u>82,455</u>

Total Non-Current Assets

145,024

Total Assets

272,925

Liabilities

Accounts Payable	45,811
Intergovernmental Payable	246
Accrued Wages and Benefits Payable	16,954
Compensated Absences Payable	4,236
Other Liabilities	<u>1,169</u>

Total Liabilities

68,416

Net Assets

Investment in Capital Assets	145,024
Unrestricted	<u>59,485</u>

Total Net Assets

\$204,509

See Accompanying Notes to the Financial Statements.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN ACCUMULATED DEFICIT/NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

Operating Revenues	
Foundation Payments	\$677,775
Disadvantage Pupil Impact Aid	<u>11,879</u>
Total Operating Revenue	<u>689,654</u>
Operating Expenses	
Salaries	229,985
Fringe Benefits	48,439
Purchased Services	480,713
Materials and Supplies	9,588
Depreciation	4,764
Other Operating Expenses	<u>86</u>
Total Operating Expenses	<u>773,575</u>
Operating Loss	<u>(83,921)</u>
Non-Operating Revenues	
Federal Grants	197,521
State Grants	3,003
On Behalf Payments	<u>87,941</u>
Total Non-Operating Revenues	<u>288,465</u>
Change in Net Assets	204,544
Accumulated Deficit at Beginning of Year	<u>(35)</u>
Net Assets at End of Year	<u><u>\$204,509</u></u>

See Accompanying Notes to the Financial Statements.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flow From Operating Activities:

Cash Provided By State of Ohio	\$689,654
Cash Used For Employees for Services	(222,361)
Cash Used For Suppliers for Goods and Services	(479,957)
	<hr/>
Net Cash (Used for) Operating Activities	(12,664)

Cash Flow from Noncapital Financing Activities

Cash Provided By Federal and State Grants	187,334
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Cash Flow from Capital and Related Financing Activities

Cash Used For Acquisition of Capital Assets	(147,897)
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Net Increase in Cash and Cash Equivalents	26,773
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Cash and Cash Equivalents at the Beginning of the Year	<hr/>
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Cash and Cash Equivalents at the End of the Year	<u><u>\$26,773</u></u>
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Reconciliation of Operating (Loss) to Net Cash (Used for) Operating Activities

Operating (Loss)	(\$83,921)
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Adjustments to Reconcile Operating (Loss) to Net Cash (Used for) Operating Activities

Depreciation	4,764
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Change in Assets and Liabilities

Increase in Accounts Payable	43,888
Increase in Intergovernmental Payable	246
Increase in Accrued Wages and Benefits Payable	16,954
Increase in Accrued Compensated Absences Payable	4,236
Increase in Other Liabilities	1,169
	<hr/>

Total Adjustments	66,493
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Net Cash Provided By (Used for) Operating Activities	<u><u>(\$12,664)</u></u>
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See Accompanying Notes to the Financial Statements.

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**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The ISUS Institute of Manufacturing (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 as an organization operated exclusively for educational purposes. The School is exempt 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 School's tax exempt status.

Specifically, the mission of the School is to advance youth through a program of academic education, employment training, personal and leadership development, and service learning. Students will graduate with the knowledge, skills and attitudes required for employment in the manufacturing industry. The School is a degree granting high school and serves students from age sixteen through twenty-one.

The School, which is part of the State's education program, is independent of any school district. It may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School in April 1999. The Ohio Department of Education approved the proposal and entered into a contract with the developers effective June 6, 2001. The first school year, for students, began on July 19, 2004.

The school operates under a five member Board of Trustees. The Board is ultimately responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional facility that was staffed by 5 certificated counseling and teaching personnel, 4 non-certificated instructional staff persons. Approximately ninety-nine (99) students were served during the 2004-2005 school year.

The School is associated with five organizations which are defined as related organizations. These organizations are the Improved Solutions for Urban Systems, Inc. (ISUS), ISUS Trade and Technology Community School of Columbus, ISUS Trade and Technology Community School of Springfield, The ISUS Institute of Health Care, and The ISUS Institute of Construction Technology. These organizations are presented in Note 14 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 difference between total assets and liabilities is defined as net assets. Net assets are segregated into three categories: 1) net assets invested in capital assets; 2) restricted net assets; and 3) unrestricted net assets. The statement of revenues, expenses and changes in net assets present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

The School must adopt a spending plan as set forth in the Ohio Revised Code 5705.391, which requires annual appropriations and annual revenue estimates.

D. Cash

The School's fiscal officer accounts for all monies received by the School. All monies are maintained in a demand deposit account. To improve cash management, all cash received from the State of Ohio is electronically transferred into an account. The School had no investments during the period.

E. 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 these estimates.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

Capital assets and improvements with an estimated historical cost or cost of more than \$500 are capitalized and updated for additions and retirements during the year. The costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are expensed.

Depreciation is computed using the straight-line method over an estimated useful life of the asset.

An estimated useful life for equipment is 5 years and leasehold improvement is 40 years.

G. Intergovernmental Revenues

The School participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues (State Foundation) in the accounting period in which all eligibility requirements have been met.

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 fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts received under the above named programs for the 2005 school year totaled \$890,178.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation and compensatory time when earned for all employees.

The School does not record a liability for sick leave benefits because its policy is not to pay out accumulated sick leave balances upon termination of employment.

I. Accrued liabilities

Obligations incurred but unbilled prior to June 30, 2005, are reported as accrued liabilities in the accompanying financial statements.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Exchange and Non-Exchange Transactions

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 School 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

3. CASH AND DEPOSITS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At June 30, 2005, the School had a cash balance of \$26,773, which is presented as cash in the accompanying financial statements. The bank balance of the School's deposits was \$28,219. Of the bank balance \$28,219 is covered by federal deposit insurance.

4. RECEIVABLES

A. Accounts Receivable

Accounts Receivable at June 30, 2005 consisted of amounts due the School from The ISUS Institute of Construction Technology, for state, federal, and other sources received by The ISUS Institute of Construction Technology that are passed through to the School. These receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Accounts receivable due the School at June 30, 2005 include:

ISUS Institute of Construction Technology	<u>\$87,941</u>
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B. Intergovernmental Receivable

Intergovernmental receivable at June 30, 2005 consisted of the following:

Title I	\$7,169
Title II-A	773
IDEA-B	3,300
School Lunch	<u>1,945</u>
Total	<u>\$13,187</u>

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

5. RISK MANAGEMENT

A. Property and liability

The School 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. For the period ended June 30, 2005, the School contracted with the Cincinnati Insurance Company for property and general liability insurance.

The School leased a facility on which they were named insured's with ISUS Inc., with coverage provided by The Cincinnati Insurance Company. Coverage included personal property \$527,000; employee dishonesty \$300,000; and general liability \$1,000,000 with an aggregate limit of \$2,000,000.

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

C. Employee, Medical, Dental, and Vision Benefits

The School, through a contract held by ISUS, Inc., provides employee dental, life, vision, and medical and surgical benefits. The School pays 85% of the monthly premium and the employee is responsible for the remaining 15%, except for dental insurance which is split 50/50 by the School and employee. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependents. The health insurance plan was a simplified funded plan, with specific stop-loss protection.

6. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute 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 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School'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. For fiscal year 2004, 9.09 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 School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was \$1,292; 100 percent has been contributed for fiscal year 2005.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

6. DEFINED PENSION BENEFIT PLANS (Continued)

B. State Teachers Retirement System

The School 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 or by calling (614) 227-4090.

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% 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, 2005, plan members were required to contribute the statutory maximum of 10 percent of their annual covered salaries. The School 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal year ended June 30, 2005 was \$24,415; 100 percent has been contributed for fiscal year 2005.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

7. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board (the Board) has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$1,878 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 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 premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$605.

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 annual health care expenses. Expenses for health care for fiscal year ended June 30, 2004, (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

8. OTHER EMPLOYEE BENEFITS-COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from School policy and State laws. Employees earn 27 days of vacation after 90 days of employment. Accumulated unused vacation time is paid to employees upon termination of employment. Teachers, administrators, and employees earn sick leave at the rate of three hours per pay period, accruable to 80 hours. Sick leave in excess of 80 hours is reimbursed on a quarterly basis.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

9. CONTINGENCIES

A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools 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 for oral argument 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 review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

C. State funding

The Ohio Department of Education (ODE) 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. The results of this review resulted in state funding being adjusted; however, it did not have a material adverse effect on the overall financial position of the School at June 30, 2005.

10. RELATED PARTY TRANSACTIONS

A. Related Party

The Superintendent also serves as the Legal Counsel for the School. The School was not involved in significant legal actions during fiscal year 2005.

B. Accounts Payable

Included in the accounts payable balance is \$19,618 due to The ISUS Institute of Construction Technology for reimbursement of administrative employees' payroll and pass through of grant funds. Also, included in the accounts payable balance is \$11,229 due to ISUS Inc. for reimbursement of administrative employees payroll, office supplies, and lease payments.

C. Improved Solutions for Urban Systems, Inc. (ISUS)

Improved Solutions for Urban Systems, Inc. (ISUS) is a not-for-profit corporation in the State of Ohio, operated under the direction of a different Board of Trustees. The School paid \$209,356 for administrative services to this organization during fiscal year 2005. To obtain financial information, write to Improved Solutions for Urban Systems, Inc. (ISUS), David Bridge, Accountant, at 140 North Keowee Street, Dayton, OH 45402.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

11. OPERATING LEASE

During fiscal year 2005, the School leased a building and office facility under an operating lease ending June 30, 2005 from ISUS Inc. Total lease payments were \$58,850 for the year ended June 30, 2005, which includes utilities, telephone service, and janitorial service. The basis for determining the payment was the square footage occupied by the School. The lease arrangement states it will automatically renew for four successive one year periods, absent an action by either of the parties to terminate the lease.

12. PURCHASED SERVICES

For the fiscal year 2005, purchased services expenses were payments for services rendered by various vendors for the following:

Professional/Technical Services	\$ 5,237
Contracted Craft/Trade Services	334,288
Administrative	<u>141,188</u>
Total	<u>\$480,713</u>

13. CAPITAL ASSETS

A summary of the capital assets at June 30, 2005 follows:

Furniture and Equipment	\$ 67,333
Leasehold Improvements	82,455
Less: Accumulated Depreciation	<u>(4,764)</u>
Net Capital Assets	<u>\$145,024</u>

14. RELATED ORGANIZATIONS

A. ISUS Trade and Technology Community School of Columbus, ISUS Trade and Technology Community School of Springfield, and The ISUS Institute of Health Care are community schools in the State of Ohio, operated under the direction of the same Board of Trustees that operate the School. The abovementioned schools are in the start-up phase of the community school process. The School provides administrative services to the abovementioned community schools. To obtain financial information, write to The ISUS Institute's, Montgomery County, David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

B. The ISUS Institute of Construction Technology is a community school in the State of Ohio, operated under the direction of the same Board of Trustees that operates the School. The School receives grant money passed through from the abovementioned community school with an amount due, as of June 30, 2005, to the School as defined in Note 4. To obtain financial information, write to The ISUS Institute of Construction Technology, Montgomery County, David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

14. RELATED ORGANIZATIONS (Continued)

C. Improved Solutions for Urban Systems, Inc. (ISUS) is a not-for-profit corporation in the State of Ohio, operated under the direction of a different Board of Trustees. Board membership for The ISUS Institute of Manufacturing will be subject to approval by the Board of Trustees of ISUS, Inc. pursuant to the governing documents that are and will be in place. The School paid \$209,356 for purchased services to this organization during fiscal year 2005. To obtain financial information, write to Improved Solutions for Urban Systems, Inc. (ISUS), David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

15. SUBSEQUENT EVENTS

During July of 2005, ISUS Inc. was awarded \$1,000,000 in House Bill 66 earmarking grants for fiscal year 2006-2007 from the Ohio Department of Education and the Department of Labor. A portion of these grants will pass through to the School. The amount of monies that will pass through is undeterminable at this time.



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*

The ISUS Institute of Manufacturing
Montgomery County
140 North Keowee Street
Dayton, Ohio 45402-1309

To the Board of Governance:

We have audited the financial statements of the business-type activities of The ISUS Institute of Manufacturing (the School) as of and for the fiscal year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 27, 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 School'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 School's management dated February 27, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 we must report under *Government Auditing Standards*. In a separate letter to the School's management dated February 27, 2006, we reported other matters related to noncompliance we deemed immaterial.

The ISUS Institute of Manufacturing
Montgomery County
Independent Accountants' Report on Internal Control Over
Financial Reporting and On Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management and the Board of Governance. It is not intended for 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

February 27, 2006



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY 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
MARCH 14, 2006**