ISUS TRADE AND TECHNOLOGY COMMUNITY SCHOOL OF CINCINNATI
HAMILTON COUNTY

REGULAR AUDIT

FOR THE PERIOD ENDED AUGUST 31, 2004

Auditor of State
Betty Montgomery

ISUS TRADE AND TECHNOLOGY COMMUNITY SCHOOL OF CINCINNATI
HAMILTON COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

ISUS Trade and Technology Community School of Cincinnati
Hamilton County
140 North Keowee Street
Dayton, Ohio 45402-1309

To the Board of Governance:

We have audited the accompanying basic financial statements of ISUS Trade and Technology Community School of Cincinnati, Hamilton County, (the School), as of and for the period ended August 31, 2004, 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 *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISUS Trade and Technology Community School of Cincinnati, Hamilton County, as of August 31, 2004, and the changes in financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the period ended August 31, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*

As described in Note 14, the School ceased operations on June 30, 2004; however, all significant financial activity had been completed as of August 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Managements 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

April 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED AUGUST 31, 2004

The discussion and analysis of ISUS Trade and Technology Community School of Cincinnati's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended August 31, 2004. 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 fiscal year 2004 are as follows:

- Total net assets decreased $461,612 in 2004, as a result of an increase in total expenditures of 17.7 percent and only a 6.2 percent increase in total revenues.

- Total liabilities increased $308,395 from the prior year. The increase is primarily due to a $100,758 overpayment received from ODE foundation payments and a $331,576 balance due to related parties.

- The operating loss reported for the period ending August 31, 2004 ($882,067) was $8,748 more than the operating loss reported for fiscal year 2003 or a one percent increase.

- The School ceased operations as of June 30, 2004 due to the loss of funding and sponsorship from Cincinnati City School District.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED AUGUST 31, 2004
(Continued)

Table 1 provides a summary of the School's net assets for fiscal period ending August 31, 2004 compared with fiscal year 2003.

Table 1
Net Assets

	2004	2003
Assets:		
Current and other assets	$134,441	$351,229
Capital assets, net	111,518	47,947
Total Assets	245,959	399,176
Liabilities:		
Current liabilities	570,435	262,040
Total Liabilities	570,435	262,040
Net Assets:		
Invested in capital assets	111,518	47,947
Unrestricted	(435,994)	89,189
Total Net Assets	$(324,476)	$137,136

Total net assets of the School decreased by $461,612. The decrease in total net assets from fiscal year 2003 is due to an increase in expenditures of 17.7 percent and only a 6.2 percent increase in revenues. Management continues efforts to maintain operating costs at a reasonable level to ensure the financial stability of the School.

As noted in Table 1 above, reported unrestricted net assets at August 31, 2004 decreased by $525,183 from those reported at June 30, 2003. The slight increase in revenues and the considerable increase in expenses contributed to reducing unrestricted net assets reported at year end.

The increase of $63,571 in net assets invested in capital assets results from $67,496 in Leasehold Improvements.

Table 2 shows the changes in net assets for the fiscal period ended August 31, 2004, as well as revenue and expense comparisons to fiscal year 2003.

**Table 2
Changes in Net Assets**

	2004	2003
Operating Revenues:		
Foundation payments	$718,259	$723,870
Disadvantage Pupil	6,611	6,481
Miscellaneous revenues	405	2,040
Supplemental	282,687	263,593
Non Operating Revenues:		
State and Federal grants	394,536	349,025
Other	25,919	0
Total Revenues	1,428,417	1,345,009
Operating Expenses:		
Salaries	923,827	961,178
Fringe benefits	260,250	249,619
Purchased Services	578,274	271,478
Materials and supplies	88,597	83,658
Depreciation	22,352	8,605
Other expenses	16,729	31,172
Total Expenses	1,890,029	1,605,710
Change in net assets	(461,612)	(260,701)
Net assets, beginning of year	137,136	397,837
Net assets, end of year	($324,476)	$137,136

The decrease in Foundation payments is due to a $100,758 overpayment received from Ohio Department of Education (ODE), the notification of the alleged overpayment was issued January 18, 2005 and is currently in the appeal process. Overall revenues only increased by 6.2 percent from FY 2003.

Total expenses of the School reported for the period were $284,319 greater than what was reported in the prior fiscal year. The increase in total expenditures was primarily due to the $306,796 increase in Purchased Services. The increase in Purchased Services can be attributed to an 88 percent increase in contract labor.

Capital Assets

At August 31, 2004 capital assets of the School were $144,899 off-set by $33,381 in accumulated depreciation resulted in net capital assets of $111,518. Table 3 shows the categories of capital assets maintained by The School, net of accumulated depreciation, at August 31, 2004 and June 30, 2003.

Table 3
Capital Assets, Net of Depreciation

	2004	2003
Leasehold improvements	$67,024	$9,528
Equipment	44,494	38,419
Totals	$111,518	$47,947

The increase in net capital assets is due to the significant increase in Leasehold Improvements

Contacting the School

This financial report is designed to provide a general overview of the finances of the ISUS Trade and Technology Prep Community School of Cincinnati 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: ISUS Trade and Technology Community School of Cincinnati, 140 N. Keowee St., Dayton, OH 45402.

ISUS TRADE AND TECHNOLOGY COMMUNITY SCHOOL OF CINCINNATI
HAMILTON COUNTY

STATEMENT OF NET ASSETS
AUGUST 31, 2004

ASSETS	
Current Assets	
Cash	$133,162
Accounts Receivable	1,279
Total Current Assets	134,441
Non-Current Assets	
Equipment	67,875
Leasehold Improvements	77,024
Accumulated Depreciation	(33,381)
Total Non-Current Assets	111,518
Total Assets	245,959
LIABILITIES	
Accounts Payable	331,576
Intergovernmental Payable	237,916
Accrued Wages and Benefits Payable	943
Total Liabilities	570,435
NET ASSETS	
Invested in capital assets	111,518
Unrestricted	(435,994)
Total Net Assets	($324,476)

The accompanying notes to the financial statements are an integral part of this statement.

ISUS TRADE AND TECHNOLOGY COMMUNITY SCHOOL OF CINCINNATI
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE PERIOD ENDED AUGUST 31, 2004

Operating Revenues	
State Foundation	$718,259
Disadvantage Pupil Impact Aid	6,611
Supplemental	282,687
Miscellaneous	405
Total Operating Revenues	1,007,962
Operating Expenses	
Salaries	923,827
Fringe Benefits	260,250
Purchased Services	578,274
Materials and Supplies	88,597
Depreciation	22,352
Other Operating Expenses	16,729
Total Operating Expenses	1,890,029
Operating Loss	(882,067)
Non-Operating Revenues	
Federal Grants	358,088
State Grants	36,448
On Behalf Payments	25,919
Total Non-Operating Revenues	420,455
Change in net assets	(461,612)
Net assets, beginning of year	137,136
Net assets, end of year	($324,476)

The accompanying notes to the financial statements are an integral part of this statement.

ISUS TRADE AND TECHNOLOGY COMMUNITY SCHOOL OF CINCINNATI
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED AUGUST 31, 2004

Increase in Cash and Cash Equivalents	
Cash Flows Provided By Operating Activities	
Cash Provided By State of Ohio	$825,628
Cash Provided By Miscellaneous Sources	405
Cash Provided By Supplemental Sources	282,687
Cash Used For Employees for Services	(921,135)
Cash Used For Suppliers for Goods and Services	(613,445)
Net Cash Used For Operating Activities	(425,860)
Cash Flows Provided By Noncapital Financing Activities	
Cash Provided By On Behalf Payments	24,640
Cash Provided By Federal and State Grants	394,536
Net Cash Provided By Noncapital Financing Activities	419,176
Cash Flows Provided By Capital and Related Financing Activities	
Cash Used For Acquisition of Capital Assets	(85,922)
Net Increase in Cash	(92,606)
Cash at Beginning of Year	225,768
Cash at End of Year	133,162
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	(882,067)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities	
Depreciation	22,352
Change in Assets and Liabilities	
Decrease in Accounts Receivable	23,858
Increase in Accounts Payable	302,274
Increase in Intergovernmental Payable	34,519
Decrease in Accrued Wages and Benefits Payable	(53,753)
Increase in Compensated Absences Payable	126,957
Net Cash Used For Operating Activities	($425,860)

The accompanying notes to the financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

ISUS Trade and Technology Prep Community School of Cincinnati (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 building trades 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 proposed to the Cincinnati City School District Board of Education, the sponsor. The Cincinnati City School District Board of Education approved the proposal and entered into a contract with the developers effective May 8, 2000. The first school year, for students, began on September 17, 2001.

The school operates under a six 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 eleven certificated counseling and teaching personnel, seven non-certificated instructional staff persons and administrative staff. Approximately eighty-three students were served during the 2003-2004 school year.

The School is associated with six 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 Lima, ISUS Trade and Technology Manufacturing, ISUS Trade and Technology of Springfield, and ISUS Trade and Technology Prep Community School, Montgomery County. These organizations are presented in Note 13 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of ISUS Trade and Technology Prep Community School of Cincinnati 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.

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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e. g., 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 used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between ISUS Trade and Technology School of Cincinnati and its sponsor, the Cincinnati City School District Board of Education, requires the following:

1. The Governing Authority agrees to comply with the financial plan that details an estimated school budget for each year of the period of this contract.

2. Monthly financial reports of revenues and expenditures will be prepared for review by the Governing Authority. In addition, the corporate board will receive financial reports not less than quarterly.

3. Submit quarterly cash flow analysis reports to the Sponsor. The quarterly reports will indicate year-to-date expenditures as well as monthly totals.

D. Cash and Cash Equivalents

The School's fiscal officer accounts for all monies received by the School. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. Capital Assets and Depreciation

Capital assets with an estimated historical cost or cost of more than $500 are capitalized and updated for additions and retirements during the year. 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 capitalized. Depreciation is computed using the straight-line method over an estimated useful life of 5 years for Equipment and 44 years for leasehold improvements.

G. Intergovernmental Revenue

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. The School also received supplemental payments from Cincinnati City School District (the District) an amount equal to the difference between the Districts's adjusted per pupil amount and the formula amount for each Cincinnati City School District resident FTE student enrolled at the Community School. Revenues received from these programs are recognized as operating revenues 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 period ending August 31, 2004 totaled $1,402,093.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities

Obligations incurred but unbilled prior to August 31, 2004, are reported as accrued liabilities in the accompanying financial statements.

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.

K. Change in Accounting Principles

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the School financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements.

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 August 31, 2004, the School had a cash balance of $133,162, which is presented as cash in the accompanying financial statements. The bank balance of the School's deposits was $133,903. Of the bank balance $100,000 was covered by federal deposit insurance and $33,903 was uncollateralized and unsecured. Non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

4. RECEIVABLES

No allowance for doubtful accounts has been recorded as all amounts are considered collectible. All receivable amounts are anticipated to be collected with one year.

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 August 31, 2004, the School contracted with The Cincinnati Insurance Company for property and general liability insurance.

The School owned no real property during the period. They leased a facility on which they were named insured's with ISUS, Inc., with coverage provided by The Cincinnati Insurance Company. Coverage included employee dishonesty $300,000; and general liability $1,000,000 with an unlimited aggregate limit.

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. with a private carrier, provides employee medical and surgical benefits. The School pays 85% of the monthly premium and the employee is responsible for the remaining 15%. The School pays 50% of the monthly vision premium and the employee is responsible for the other 50%. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependents.

6. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (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 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 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 period ended August 31, 2004 and for the years ended June 30, 2003 and 2002 were $23,540, $10,007 and $8,590, respectively; 100 percent has been contributed for the period ended August 31, 2004 and for fiscal years 2003 and 2002.

6. DEFINED PENSION BENEFIT PLANS (Continued)

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), 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 the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 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, 2004, plan members were required to contribute 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 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 School's required contributions for pension obligations to the DB Plan for the period ended August 31, 2004 and for fiscal years ended June 30, 2003 and 2002 were $58,110, $46,934 and $14,820, respectively; 100 percent has been contributed for the period ended August 31, 2004 and for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for the period ended August 31, 2004 were $4,956 made by the School and $5,211 made by the plan members.

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 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, 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 $4,470 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was $3.1 billion. At June 30, 2004, net health care costs paid by STRS $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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at $24,500. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $12,715.

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, 2004, 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 accrue 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 hrs is reimbursed on a quarterly basis.

9. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…".

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

10. 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 August 31, 2004.

B. Pending Litigation

A Suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (ie., 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^{th}, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public education system and this matter was sent to the Ohio Supreme Court. 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 discovered an overpayment to the School in the amount of $100,758. This amount is included in the Intergovernmental Payable and was deducted from the State Foundation revenues. The School has appealed ODE's overpayment assessment and has advised ODE that no payment will be made toward the overpayment pending the appeal. As of the date of this report, there has been no response from ODE.

11. RELATED PARTY TRANSACTIONS

A. Accounts Payable

Included in the accounts payable balance of $331,576 is $320,738 due to ISUS, Inc. and ISUS Trade and Technology Prep Community School for reimbursement of payroll related expenses.

B. Related Party

The Superintendent also serves as the Legal Counsel for the School. The School was not involved in any significant legal actions during period ending August 31, 2004.

12. PURCHASED SERVICES

For the period July 1, 2003 through August 31, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

Professional Services	$ 53,678
Equipment Rental/Repairs	1,965
Subscriptions	10,476
Recruitment Expense	3,509
Rental Expense	56,948
Printing	6,656
Travel and Entertainment	9,256
Student Development	11,199
Contract Labor	424,587
Total	$ 578,274

13. RELATED ORGANIZATIONS

ISUS Trade and Technology Prep Community School, Montgomery County – ISUS Trade and Technology Prep Community School, Montgomery County is a distinct community school in the State of Ohio, operated under the direction of the same Board of Trustees that operates the School. The School paid $182,086 for health care premiums and payroll related reimbursements for payroll processing services for School employees, to this organization during fiscal year 2004. To obtain financial information, write to ISUS Trade and Technology Prep Community School, Montgomery County, David Bridge, Accounting Manager, at 140 North Keowee Street, Dayton, Ohio 45402.

Improved Solutions for Urban Systems, Inc. (ISUS) – Improved Solutions for Urban Systems, Inc. (ISUS) is a non-for-profit corporation in the State of Ohio, operated under the direction of an independent Board of Trustees that operates the School. The School paid $56,031 for administrative services, such as health insurance, payroll, and financial management to this organization during fiscal year 2004. Amounts paid are not determined by contract, but by cost allocation of these services provided to the School. To obtain financial information, write to Improved Solutions for Urban Systems, Inc. (ISUS), David Bridge, Accounting Manager, at 140 North Keowee Street, Dayton, Ohio 45402

13. RELATED ORGANIZATIONS (Continued)

ISUS Trade and Technology Community School of Columbus, ISUS Trade and Technology Community School of Lima, ISUS Trade and Technology Manufacturing and ISUS Trade and Technology of Springfield 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. To obtain financial information, write to ISUS Trade and Technology Prep Community School, Montgomery County, David Bridge, Treasurer, at 140 North Keowee Street, Dayton, Ohio 45402.

14. SCHOOL CLOSING AND SUBSEQUENT EVENT

ISUS Trade and Technology Prep Community School of Cincinnati was closed effective June 30, 2004. This caused a discussion between representatives of the School, the Ohio Department of Education, and of Cincinnati Public Schools relating to the placement of the School's affairs. The contract between the School and the Cincinnati Board, as related to the disposal of the School's assets, was in conflict with provisions in the Ohio Revised Code. The overriding question is whether those assets, in whole or significant part, will transfer to the Cincinnati Board, as provided by the contract, or whether they will transfer to the Ohio Department of Education, as provided by statue.

This matter poses no apparent financial liability for the school, but it does place on hold the placement of the School's affairs. Additionally, it also requires the continuing storage of the School's property and risks attendant thereto, and, of course, requires a minor continuing administrative burden to bring the school's affairs to a close. This matter has been referred to the Ohio Attorney General for an Opinion. As of the date of this report, no ruling has been made by the Attorney General's Office.

15. INTERGOVERNMENTAL PAYABLE

Intergovernmental Payables at August 31, 2004 consisted of the following:

FY 2003 Intergovernmental Payable	$168,798
FY 2003 FTE Adjustment Paid in 2004	-32,596
FY 2004 FTE Adjustment	100,758
Payroll Liability	956
Total Intergovernmental	$237,916

16. ACCOUNTS PAYABLE

Account Payables at August 31, 2004 consisted of the following:

ISUS, Inc.	$79,979
ISUS Trade and Technology Prep Community School	240,759
Other	10,838
Total Accounts Payable	$331,576

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

ISUS Trade and Technology Community School of Cincinnati
Hamilton County
140 North Keowee
Dayton, Ohio 45402-1309

To the Board of Governance:

We have audited the financial statements of the business-type activities of ISUS Trade and Technology Community School of Cincinnati, Hamilton County, (the School), as of and for the period ended August 31, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 12, 2005, wherein we noted that the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and that the School ceased operations on June 30, 2004; however, all significant financial activity had been completed as of August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the School's management in a separate letter dated April 12, 2005.

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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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the School's management in a separate letter dated April 12, 2005.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 12, 2005

Auditor of State
Betty Montgomery

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ISUS TRADE AND TECHNOLOGY COMMUNITY SCHOOL OF CINCINNATI

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 5, 2005