

THE ISUS INSTITUTE OF MANUFACTURING

Financial Statements

June 30, 2006

with

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Members of the Board
The ISUS Institute of Manufacturing
140 North Keowee St.
Dayton, Ohio 45402

We have reviewed the *Independent Auditors' Report* of The ISUS Institute of Manufacturing, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The ISUS Institute of Manufacturing is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 25, 2007

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ISUS INSTITUTE OF MANUFACTURING

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report

To the Board of Governance
ISUS Institute of Manufacturing
Dayton, Ohio

We have audited the accompanying basic financial statement of ISUS Institute of Manufacturing (the School), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the 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 Institute of Manufacturing, as of June 30, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 15, 2006

**THE ISUS INSTITUTE OF MANUFACTURING
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
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 period ended June 30, 2006. 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 2006 are as follows:

- Total assets increased \$142,251, which represents a 52 percent increase from the prior year. The increase resulted primarily from \$12,735 increase in Intergovernmental and Accounts Receivable, and \$128,804 increase in Capital Assets.
- Total liabilities increased \$91,819 which represents a 134 percent increase from the prior year. The increase resulted primarily from \$76,346 increase in Intergovernmental and Accounts Payable.
- Total net assets increased \$50,432 for the period ended June 2006, which represents 25 percent increase from the period ended June 2005.

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
UNAUDITED**

evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2006 compared with fiscal year 2005.

**Table 1
Net Assets**

	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 141,348	127,901
Capital assets, net	<u>273,828</u>	<u>145,024</u>
Total assets	<u>415,176</u>	<u>272,925</u>
Liabilities:		
Current liabilities	<u>160,235</u>	<u>68,416</u>
Total liabilities	160,235	68,416
Net assets:		
Invested in capital assets	273,828	145,024
Unrestricted	<u>(18,887)</u>	<u>59,485</u>
Total net assets	\$ <u>254,941</u>	<u>204,509</u>

Total net assets of the School increased by \$50,432

Current and Other Assets increased \$13,447 due to \$12,735 increase in Intergovernmental and Accounts Receivable. The increase in receivables is due to an increase in receivables from The Ohio Department of Education at June 30, 2006.

Capital Assets increased \$128,804 due to the purchase of equipment for the manufacturing facility.

Current Liabilities increased \$91,819 due to a \$76,346 increase in Intergovernmental and Accounts Payable, and \$19,829 increase in Other Liabilities. Accrued wages and compensated absences payable decreased by \$4,356 from prior year. The increase in payables resulted from an increase in billings due to rent and administration costs. The increase in other liabilities was due to an accrual of an overpayment of foundation money for fiscal year 2005 that was paid back to ODE in fiscal year 2006 and an accrual for an overpayment of foundation money for fiscal year 2006 that will be paid back in fiscal year 2007.

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Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

**Table 2
Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Foundation payments	\$ 541,278	677,775
Charge for services	72,447	-
Other	-	11,879
Non-operating revenues		
State and Federal grants	243,837	200,524
Contributions	17,991	-
ISUS (on behalf) revenue	<u>417,922</u>	<u>87,941</u>
 Total revenues	 <u>1,293,475</u>	 <u>978,119</u>
 Operating expenses:		
Salaries	484,861	229,985
Fringe benefits	113,027	48,439
Purchased services	534,091	480,713
Materials and supplies	49,363	9,588
Depreciation	20,243	4,764
Other operating expenses	<u>41,458</u>	<u>86</u>
 Total operating expenses	 <u>1,243,043</u>	 <u>773,575</u>
 Change in net assets	 50,432	 204,544
Net assets, beginning of year	<u>204,509</u>	<u>(35)</u>
Net assets, end of year	\$ <u>254,941</u>	<u>204,509</u>

The decrease in Foundation payments was due to a decrease in student enrollment. The increase in Charge for services is due to billings for shared employees. The increase in State and Federal Grants is due to an increase in Title funding from the State and a Federal Sub Grant received from the State. The increase in Contributions is due to a discount on the purchase of a piece of equipment. The increase in On Behalf Payments is due to an increase in grants passed through from ISUS Corporation.

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The increase in Salaries and Fringe Benefits is due to the hiring of additional staff. The increase in Purchased Services is due to increased rent and administration fees paid to ISUS Corporation and The ISUS Institute of Construction Technology. The increase in Materials and Supplies is due to the purchase of office supplies for the teaching staff and classroom supplies for the students. Depreciation increased due to the purchase of equipment that was capitalized. Other Expenses increased due to an increase in sponsorship fees, audit fees, and the purchase of bus tokens for student transportation.

Capital Assets

At June 30, 2006 capital assets of the School were \$298,834 off-set by \$25,006 in accumulated depreciation resulted in net capital assets of \$273,828. Table 3 shows the categories of capital assets maintained by The School, net of accumulated depreciation, at June 30, 2006 and 2005.

**Table 3
Capital Assets, net of depreciation**

	<u>2006</u>	<u>2005</u>
Leasehold improvements	\$ 82,455	82,455
Equipment	216,379	67,333
Less: Accumulated Depreciation	<u>(25,006)</u>	<u>(4,764)</u>
Totals	\$ <u>273,828</u>	<u>145,024</u>

The increase in equipment is due to the purchase of a fork lift, air compressor, and a floor cleaning system for the manufacturing facility.

See note 12 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Debt

At June 30, 2006, 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.

ISUS INSTITUTE OF MANUFACTURING

Statement of Net Assets

June 30, 2006

<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 27,485
Accounts receivable	81,172
Intergovernmental receivable	<u>32,691</u>
Total current assets	<u>141,348</u>
Non-current assets, net of accumulated depreciaton:	
Equipment	193,434
Leasehold improvements	<u>80,394</u>
Total non-current assets	<u>273,828</u>
Total assets	\$ <u><u>415,176</u></u>
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable	\$ 117,640
Intergovernmental payable	4,763
Accrued wages and benefits payable	13,548
Compensated absences payable	3,286
Accrued liabilities, other	<u>20,998</u>
Total liabilities	<u>160,235</u>
Net assets:	
Investment in capital assets	273,828
Unrestricted	<u>(18,887)</u>
Total net assets	<u>254,941</u>
Total liabilities and net assets	\$ <u><u>415,176</u></u>

See accompanying notes to the financial statements.

ISUS INSTITUTE OF MANUFACTURING
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006

Operating revenues:	
Foundation payments	\$ 541,278
Charge for services	<u>72,447</u>
Total operating revenues	<u>613,725</u>
Operating expenses:	
Salaries	484,861
Fringe benefits	113,027
Purchased services	534,091
Materials and supplies	49,363
Depreciation	20,243
Other operating expenses	<u>41,458</u>
Total operating expenses	<u>1,243,043</u>
Operating loss	<u>(629,318)</u>
Non-operating revenues	
Federal grants	240,837
State grants	3,000
Contributions	17,991
ISUS (on behalf) revenue	<u>417,922</u>
Total non-operating revenues	<u>679,750</u>
Change in net assets	50,432
Net assets, beginning of year	<u>204,509</u>
Net assets, end of year	<u>\$ 254,941</u>

See accompanying notes to the financial statements.

ISUS INSTITUTE OF MANUFACTURING

Statement of Cash Flows

Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from foundation payments	\$ 541,278
Cash received by charges for services	59,712
Cash used for employees for services	(602,244)
Cash used for suppliers for goods and services	<u>(528,737)</u>
Net cash used for operating activities	<u>(529,991)</u>
Cash flow from noncapital financing activities	
Cash received from ISUS, Inc.	417,922
Cash received from federal, state, private, and local grants	243,837
Cash received from contributions	<u>17,991</u>
Net cash provided by noncapital financing activities	<u>679,750</u>
Cash flow from capital and related financing activities	
Cash used for capital acquisitions	<u>(149,047)</u>
Net cash used by capital and related financing activities	<u>(149,047)</u>
Net increase in cash and cash equivalents	712
Cash and cash equivalents at the beginning of the year	<u>26,773</u>
Cash and cash equivalents at the end of the year	\$ <u><u>27,485</u></u>

(Continued)

See accompanying notes to the financial statements.

ISUS INSTITUTE OF MANUFACTURING

Statement of Cash Flows (Continued)

Year Ended June 30, 2006

Reconciliation of operating loss to net cash used for operating activities	
Operating loss	(629,318)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation	\$ 20,243
Change in assets and liabilities	
Decrease in accounts receivable	6,769
Increase in intergovernmental receivable	(19,504)
Increase in accounts payable	71,829
Increase in intergovernmental payable	4,517
Decrease in accrued wages and benefits payable	(3,406)
Decrease in accrued compensated absences payable	(950)
Increase in other liabilities	<u>19,829</u>
Net cash used for operating activities	\$ <u>(529,991)</u>

ISUS INSTITUTE OF MANUFACTURING

Notes to the Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies:

The following accounting principles and practices of the Improved Solutions for Urban Systems, Inc. are set forth to facilitate the understanding of data presented in the financial statements.

Description of organization

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 11 certificated counseling and teaching personnel, 5 non-certificated instructional staff persons. Approximately one hundred (100) students were served during the 2005-2006 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 13 to the financial statements.

Financial statement presentation

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

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Notes to the Financial Statements

June 30, 2006

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.

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.

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.

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.

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.

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.

ISUS INSTITUTE OF MANUFACTURING

Notes to the Financial Statements

June 30, 2006

Capital assets and depreciation

Capital assets and improvements with an estimated historical cost or cost of more than \$1,000 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.

Intergovernmental revenues

The School participates in the State Foundation Program revenues received from this program is 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.

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.

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.

Accrued liabilities, other

Obligations incurred but unbilled prior to June 30, 2006, are reported as accrued liabilities in the accompanying financial statements.

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

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Notes to the Financial Statements

June 30, 2006

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.

2. Cash and Deposits:

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2006, \$33,203 of the School's bank balance was covered by federal deposit insurance.

The School 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 School 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 one hundred five percent of the deposits being secured.

3. Receivables:

Accounts receivable

Accounts Receivable at June 30, 2006 include of amounts due the School from The ISUS Institute of Construction Technology and ISUS Inc., for state, federal, and other sources received by The ISUS Institute of Construction Technology and ISUS Inc. 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 at June 30, 2006 consisted of the following:

ISUS, Inc.	\$ 74,845
Institute of Construction Technology	4,548
Other	<u>1,779</u>
Total accounts receivable	\$ <u>81,172</u>

Intergovernmental receivable

Intergovernmental receivable at June 30, 2006 consisted of the following:

Ohio Department of Education	\$ 29,416
School Lunch	<u>3,275</u>
Total intergovernmental receivable	\$ <u>32,691</u>

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Notes to the Financial Statements

June 30, 2006

4. Risk Management:

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, 2006, 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.

Settled claims have not exceeded this coverage in any of last three years. There has been no significant reduction in coverage from last year.

Worker's 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.

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.

5. Defined Pension Benefits Plans:

School employee's 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. 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, 2006 and

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Notes to the Financial Statements

June 30, 2006

2005 were \$14,606 and \$1,292 respectively; 100 percent has been contributed for fiscal years 2006 and 2005.

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 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, 2006, 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, 2006 and 2005 were \$41,722 and \$24,415 respectively; 100 percent has been contributed for fiscal years 2006 and 2005.

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Notes to the Financial Statements

June 30, 2006

6. 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 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, 2006, the STRS Board allocated contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$3,209 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, 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 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's 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, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rates, provides for maintenance of the asset target level for the health care fund. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$5,902.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 were \$158,751,207. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claims costs. SERS has 59,492 participants currently eligible to receive health care benefits.

ISUS INSTITUTE OF MANUFACTURING

Notes to the Financial Statements

June 30, 2006

7. 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.

8. Contingencies:

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, 2006.

Pending litigation

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

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 could result in state funding being adjusted. This information was not available as of the date of this report.

9. Related Party Transactions:

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 2006.

Accounts payable

Included in the accounts payable balance is \$53,544 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 \$50,122 due to ISUS Inc. for reimbursement of administrative employees payroll, office supplies, and lease payments.

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Notes to the Financial Statements

June 30, 2006

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 \$247,271 for administrative services to this organization during fiscal year 2006. At June 30, 2006, the school was due \$74,845 from the organization and owed the organization \$50,122. 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 Construction Technology

The ISUS Institute of Construction Technology is a not-for-profit corporation in the State of Ohio, operated under the direction of the same Board of Trustees. The School paid \$241,025 for administrative services to this organization during fiscal year 2006. At June 30, 2006, the school was due \$4,548 from the organization and owed the organization \$53,544. To obtain financial information, write to The ISUS Institute of Manufacturing, David Bridge, Accountant, at 140 North Keowee Street, Dayton, OH 45402.

The ISUS Institute of Health Care

The ISUS Institute of Health Care is a not-for-profit corporation in the State of Ohio, operated under the direction of the same Board of Trustees as this School. The School paid \$0 for administrative services to this organization during fiscal year 2006. At June 30, 2006, the School is owed \$1,779 from the organization. To obtain financial information, write to The ISUS Institute of Manufacturing, David Bridge, Accountant, at 140 North Keowee Street, Dayton, OH 45402

10. Operating Lease

During fiscal year 2006, the School leased a building and office facility under an operating lease ending June 30, 2006 from ISUS Inc. Total lease payments were \$130,800 for the year ended June 30, 2006, 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.

11. Purchased Services:

For the fiscal year 2006, purchased services expenses were payments for services rendered by various vendors for the following:

Professional/Technical Services	\$ 40,176
Contracted Craft/Trade Services	356,392
Administrative	<u>137,523</u>
Total purchased services	\$ <u>534,091</u>

ISUS INSTITUTE OF MANUFACTURING

Notes to the Financial Statements

June 30, 2006

12. Capital Assets:

A summary of the capital assets at June 30, 2006 follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006
<u>Capital Assets, being depreciated:</u>				
Furniture and equipment	\$ 67,333	149,046	-	216,379
Leasehold improvements	82,455	-	-	82,455
Less: accumulated depreciation	(4,764)	(20,242)	-	(25,006)
Capital assets, net	\$ 145,024	128,804	-	273,828

13. Related Organizations:

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 operates 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 of Construction Technology, Montgomery County, David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

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 provides administrative services to the abovementioned community school with an amount due, as of June 30, 2006, to the School as defined in Note 9. The School paid \$241,025 for administrative services to this organization during fiscal year 2006. To obtain financial information, write to The ISUS Institute of Construction, Montgomery County, David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

The ISUS Institute of Health Care 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 provides administrative services to the abovementioned community school with an amount due, as of June 30, 2006, to the School as defined in Note 9. The School paid \$0 for administrative services to this organization during fiscal year 2006. To obtain financial information, write to The ISUS Institute of Health Care, David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

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 \$247,271 for administrative services to this organization during fiscal year 2006, to the School as defined in Note 9. To obtain financial information, write to Improved Solutions for Urban Systems, Inc. (ISUS), David Bridge, Accountant, at 140 North Keowee Street, Dayton, Ohio 45402.

ISUS INSTITUTE OF MANUFACTURING

Notes to the Financial Statements

June 30, 2006

14. Intergovernmental Payable:

Intergovernmental payables at June 30, 2006 consisted of the following:

City of Dayton	\$ 1,331
School Employees Retirement System	1,692
Treasurer of State of Ohio	<u>1,740</u>
Total intergovernmental payable	\$ <u>4,763</u>

15. Accounts Payable:

Accounts payable at June 30, 2006 consisted of the following:

Institute of Construction Technology	\$ 53,544
ISUS, Inc.	50,122
Other	<u>13,974</u>
Total accounts payable	\$ <u>117,640</u>

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Trustees
ISUS Institute of Manufacturing
Dayton, Ohio

We have audited the financial statements of the ISUS Institute of Manufacturing as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ISUS Institute of Manufacturing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISUS Institute of Manufacturing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 15, 2006



Mary Taylor, CPA
Auditor of State

**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
JULY 5, 2007**