THE ISUS INSTITUTE OF MANUFACTURING

Financial Statements

June 30, 2007

with

Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

Board Members
The ISUS Institute of Manufacturing
140 North Keowee Street
Dayton, Ohio 45402

We have reviewed the *Independent Auditor's Report* of The ISUS Institute of Manufacturing, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2006 through June 30, 2007. 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

February 4, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

THE ISUS INSTITUTE OF MANUFACTURING

Table of Contents

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

Independent Auditors' Report

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

We have audited the accompanying basic financial statement of The ISUS Institute of Manufacturing (the School), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the 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 The ISUS Institute of Manufacturing, as of June 30, 2007, 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 20, 2007, 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 20, 2007

2525 North Limestone Street, Suite 103, Springfield, OH 45503-1111, 937/399-2000 FAX 937/399-5528

CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2007
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, 2007. 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 2007 are as follows:

- Total assets increased $84,204, which represents a 20 percent increase from the prior year. The increase resulted from a $128,924 increase in accounts and intergovernmental receivables, and a $29,540 decrease in capital assets.

- Total liabilities increased $327,505 which represents a 204 percent increase from the prior year. The increase resulted from a $323,796 increase in accounts payable and intergovernmental payables, $8,947 increase in compensated absences payable, $1,193 decrease in accrued wages and benefits payable, and $4,045 decrease in other accrued liabilities.

- Total net assets of the School as of June 30, 2007 decreased by $243,301.

- The operating loss reported for the period ended June 30, 2007 $855,835 was $226,517 more than the operating loss reported for the period ended June 30, 2006, $629,318.

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.

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared with fiscal year 2006.

Table 1
Net Assets

		2007	2006
Assets			
Current and other assets	$	255,092	141,348
Capital assets, net		244,288	273,828
Total assets		499,380	415,176
Liabilities:			
Current liabilities		487,740	160,235
Total liabilities		487,740	160,235
Net assets:			
Invested in capital assets		244,288	273,828
Unrestricted		(232,648)	(18,887)
Total net assets	$	11,640	254,941

Total net assets of the School decreased by $243,301

The increase of $113,744 in current assets resulted from the increase in receivables of $128,924 and a decrease of $15,180 in cash. The increase in accounts receivables resulted from an increase in intercompany receivables and an $88,000 increase in receivables due from the County.

The decrease of $29,540 in capital assets is due $18,585 acquisition of equipment offset by $48,125 depreciation for the fiscal year ended June 30, 2007.

The increase of $327,505 in current liabilities resulted from a $323,796 increase in accounts payable and intergovernmental payables, $8,947 increase in compensated absences payable, $1,193 decrease in accrued wages and benefits payable, and $4,045 decrease in other accrued liabilities.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, as well as revenue and expense comparisons to fiscal year 2006.

Table 2
Changes in Net Assets

		2007	2006
Operating revenues:			
Foundation payments	$	624,890	541,278
Grants		286,557	-
Charge for services		82,783	72,447
Other		2,642	-
Non-operating revenues			
State and Federal grants		103,323	243,837
Contributions		4,925	17,991
ISUS (on behalf) revenue		215,087	417,922
Total revenues		1,320,207	1,293,475
Operating expenses:			
Salaries		578,756	484,861
Fringe benefits		164,354	113,027
Purchased services		701,621	534,091
Materials and supplies		23,103	49,363
Depreciation		48,125	20,243
Other operating expenses		47,549	41,458
Total operating expenses		1,563,508	1,243,043
Change in net assets		(243,301)	50,432
Net assets, beginning of year		254,941	204,509
Net assets, end of year	$	11,640	254,941

The increase in reimbursed expenses is due to increased billing for shared employees. The increase in foundation payments is due to increased FTE's for fiscal year 2007. The decrease in state and federal grants is due to a one time Federal Start up Grant that was received in fiscal year 2006. The increase in other grants is due to the receipt of a grant from the county. The decrease in on behalf payments is due to less dollars being passed through from ISUS Corp.

Salaries and fringe benefits increased due to the hiring of additional staff. Purchased services increased due to an increase in rent and contract costs. Materials and supplies decreased due to less classroom supplies purchased for students.

Capital Assets

At June 30, 2007 capital assets of the School were $317,419 off-set by $73,131 in accumulated depreciation resulted in net capital assets of $244,288. Table 3 shows the categories of capital assets maintained by The School, net of accumulated depreciation, at June 30, 2007 and 2006.

Table 3
Capital Assets, net of depreciation

		2007	2006
Leasehold improvements	$	82,455	82,455
Equipment		234,964	216,380
Less: Accumulated Depreciation		(73,131)	(25,006)
Totals	$	244,288	273,829

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, 2007, the School did not have any debt obligations.

Contacting the School

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

THE ISUS INSTITUTE OF MANUFACTURING

Statement of Net Assets

June 30, 2007

Assets

Current assets:		
Cash and cash equivalents	$	12,305
Accounts receivable		223,903
Intergovernmental receivable		18,884
Total current assets		255,092
Non-current assets, net of accumulated depreciaiton:		
Equipment		165,956
Leasehold improvements		78,332
Total non-current assets		244,288
Total assets	$	499,380

Liabilities and Net Assets

Liabilities		
Accounts payable	$	443,428
Intergovernmental payable		2,771
Accrued wages and benefits payable		12,355
Compensated absences payable		12,233
Accrued liabilities, other		16,953
Total liabilities		487,740
Net assets:		
Investment in capital assets		244,288
Unrestricted		(232,648)
Total net assets		11,640
Total liabilities and net assets	$	499,380

See accompanying notes to the financial statements.

THE ISUS INSTITUTE OF MANUFACTURING

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

Operating revenues:		
Foundation payments	$	624,890
Charge for services		82,783
Total operating revenues		707,673
Operating expenses:		
Salaries		578,756
Fringe benefits		164,354
Purchased services		701,621
Materials and supplies		23,103
Depreciation		48,125
Other operating expenses		47,549
Total operating expenses		1,563,508
Operating loss		(855,835)
Non-operating revenues		
Federal grants		100,323
State grants		3,000
Other grants		286,557
Contributions		4,925
Other revenue		2,642
ISUS (on behalf) revenue		215,087
Total non-operating revenues		612,534
Change in net assets		(243,301)
Net assets, beginning of year		254,941
Net assets, end of year	$	11,640

See accompanying notes to the financial statements.

THE ISUS INSTITUTE OF MANUFACTURING

Statement of Cash Flows

Year Ended June 30, 2007

Cash flows from operating activities:		
Cash received from foundation payments	$	624,890
Cash received from charges for services		(46,141)
Cash used for employees for services		(735,356)
Cash used for suppliers for goods and services		(452,522)
Net cash used for operating activities		(609,129)
Cash flow from noncapital financing activities		
Cash received from ISUS, Inc.		215,087
Cash received from federal, state, private, and local grants		389,880
Cash received from contributions		4,925
Cash received from miscellaneous activity		2,642
Net cash provided by noncapital financing activities		612,534
Cash flow from capital and related financing activities		
Cash used for capital acquisitions		(18,585)
Net cash used by capital and related financing activities		(18,585)
Net decrease in cash and cash equivalents		(15,180)
Cash and cash equivalents at the beginning of the year		27,485
Cash and cash equivalents at the end of the year	$	12,305

(Continued)

See accompanying notes to the financial statements.

Reconciliation of operating loss to net cash used for operating activities		
Operating loss	$	(855,835)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation		48,125
Change in assets and liabilities		
Increase in accounts receivable		(142,731)
Decrease in intergovernmental receivable		13,807
Increase in accounts payable		325,788
Decrease in intergovernmental payable		(1,992)
Decrease in accrued wages and benefits payable		(1,193)
Increase in accrued compensated absences payable		8,947
Decrease in other liabilities		(4,045)
Net cash used for operating activities	$	(609,129)

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 8 certificated counseling and teaching personnel, 3 non-certificated instructional staff persons, and 1 non-certificated administrative staff. Approximately two hundred and fifty (250) students were served during the 2006-2007 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

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.

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, 2007, 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 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, 2007, $19,782 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, 2007 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, 2007 consisted of the following:

ISUS, Inc.	$	117,511
The Institute of Construction Technology		12,582
The Institute of Health Care		4,399
Sinclair Community College		88,236
Other		1,175
Total accounts receivable	$	223,903

Intergovernmental receivable

Intergovernmental receivable at June 30, 2007 consisted of the following:

Ohio Department of Education	$	18,884
Total intergovernmental receivable	$	18,884

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, 2007, 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 80% of the monthly premium and the employee is responsible for the remaining 20%, 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 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 Statue 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, 2007 and

2006 were $10,359 and $14,606 respectively; 100 percent has been contributed for fiscal years 2007 and 2006.

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, 2007, 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, 2007 and 2006 were $61,815 and $41,722 respectively; 100 percent has been contributed for fiscal years 2007 and 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, 2007, the STRS Board allocated contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $4,755 for fiscal year 2007.

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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $3,362.

SERS' net health care costs for the year ending June 30, 2006 were $158,751,207. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was $295.6 million, which is about 221 percent 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 health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of SERS participants eligible to receive benefits is 59,492.

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, 2007.

Pending litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 23, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

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 2007.

Accounts payable

Included in the accounts payable balance is $347,312 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 $96,289 due to ISUS Inc. for reimbursement of administrative employees payroll, office supplies, and lease payments.

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 $337,569 for administrative services to this organization during fiscal year 2007. At June 30, 2007, the school was due $117,511 from the organization and owed the organization $96,289. 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 $61,761 for administrative services to this organization during fiscal year 2007. At June 30, 2007, the school was due $12,582 from the organization and owed the organization $347,312. 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 $1,095 for administrative services to this organization during fiscal year 2007. At June 30, 2007, the School was owed $4,399 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 2007, the School leased a building and office facility under an operating lease ending June 30, 2007 from ISUS Inc. Total lease payments were $114,752 for the year ended June 30, 2007, 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 2007, purchased services expenses were payments for services rendered by various vendors for the following:

Professional/Technical Services	$	18,701
Contracted Craft/Trade Services		463,533
Administrative		219,387
Total purchased services	$	701,621

12. Capital Assets:

A summary of the capital assets at June 30, 2007 follows:

		Balance 6/30/2006	Additions	Reductions	Balance 6/30/2007
Capital Assets, being depreciated:					
Furniture and equipment	$	216,379	18,585	-	234,964
Leasehold improvements		82,455	-	-	82,455
Less: accumulated depreciation		(25,006)	(48,125)	-	(73,131)
Capital assets, net	$	273,828	(29,540)	-	244,288

13. Related Organizations:

ISUS Trade and Technology Community School of Columbus and ISUS Trade and Technology Community School of Springfield 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, 2007, to the School as defined in Note 9. The School paid $61,761 for administrative services to this organization during fiscal year 2007. 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, 2007, to the School as defined in Note 9. The School paid $1,095 for administrative services to this organization during fiscal year 2007. 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 $337,569 for administrative services to this organization during fiscal year 2007, 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.

14. Intergovernmental Payable:

Intergovernmental payables at June 30, 2007 consisted of the following:

School Employees Retirement System	$	900
Treasurer of State of Ohio		1,871
Total intergovermental payable	$	2,771

15. Accounts Payable:

Accounts payable at June 30, 2007 consisted of the following:

The Institute of Construction Technology	$	347,312
ISUS, Inc.		95,194
Other		922
Total accounts payable	$	443,428

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
The 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, 2007, and have issued our report thereon dated December 20, 2007. 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 The ISUS Institute of Manufacturing's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The ISUS Institute of Manufacturing's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The ISUS Institute of Manufacturing's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, which is referenced as finding number 2007-1

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

2525 North Limestone Street, Suite 103, Springfield, OH 45503-1111, 937/399-2000 FAX 937/399-5528

CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The 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 is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2007

SCHEDULE OF AUDIT FINDINGS

THE ISUS INSTITUTE OF MANUFACTURING
JUNE 30, 2007

1. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

2007-1 Condition: Reporting journal entries not initiated by management were needed during the year-end audit to reconcile and adjust key accounts.

Criteria: Management is responsible for the effectiveness of internal control over financial reporting.

Effect: Audit adjustments were recorded to present the School's financial statements in conformity with generally accepted accounting principles.

Cause: Ineffective oversight of the School's financial reporting and internal control by those charged with governance.

Recommendation: Management should provide proper monitoring on a timely basis.

Prior year finding: None.

Response: *The School was made aware of the situation and is working to correct the issue.*

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
FEBRUARY 15, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us