# THE ISUS INSTITUTE OF MANUFACTURING

Financial Statements

June 30, 2008

(with Independent Auditors' Report)

Mary Taylor, CPA
Auditor of State

Board of Trustees
ISUS Institute of Manufacturing
140 N. Keowee St.
Dayton, OH 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, 2007 through June 30, 2008. 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 11, 2009

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

## 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, 2008, 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, 2008, 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 17, 2008, 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 17, 2008

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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, 2008. 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 2008 are as follows:

- Total assets decreased by $133,216, which represents a 26 percent decrease from the prior year. The decrease resulted primarily from $111,381 decrease in accounts and intergovernmental receivable, $43,700 decrease in net capital assets, offset by $22,865 increase in cash and cash equivalents.

- Total liabilities increased $44,311 or 9 percent from the prior year. The increase resulted from a $55,401 increase in accounts and intergovernmental payable and $11,090 decrease in accrued liabilities.

- The operating loss reported for the period ended June 30, 2008, $885,150 was $29,315 more than the operating loss reported for the period ended June 2007.

## 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 balance sheet, income statement, 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 period?" 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 the fiscal year ending June 30, 2008 compared with the fiscal year ended June 30, 2007.

**Table 1**
**Net Assets**

| | | 2008 | 2007 |
|---|---|---|---|
| Assets | | | |
| Current and other assets | $ | 166,576 | 255,092 |
| Capital assets, net | | 200,588 | 244,288 |
| Total assets | | 367,164 | 499,380 |
| Liabilities: | | | |
| Current liabilities | | 532,051 | 487,740 |
| Total liabilities | | 532,051 | 487,740 |
| Net assets: | | | |
| Invested in capital assets | | 200,588 | 244,288 |
| Unrestricted | | (365,475) | (232,648) |
| Total net assets | $ | (164,887) | 11,640 |

Total net assets of the School decreased by $176,527.

The decrease of $88,516 in current assets resulted from $111,381 decrease in accounts and intergovernmental receivable, offset by $22,865 increase in cash and cash equivalents.

The $43,700 decrease in capital assets was due to current year depreciation of $49,719, minus current year equipment addition of $6,019.

The increase of $44,311 in current liabilities resulted from increase in accounts and intergovernmental payable of $55,401, increase in accrued wages and benefits payable of $5,358, and offset by decrease of $16,448 other accrued liabilities. A significant portion of the accounts payable balance includes amounts due to ISUS, Inc. and ISUS Institute of Construction Technology for classroom rental and administrative services.

Table 2 shows a summary of revenues and expenditures compared for the period ended June 2008 and June 2007.

**Table 2**
**Changes in Net Assets**

| | | 2008 | 2007 |
|---|---|---|---|
| Operating revenues: | | | |
| Foundation payments | $ | 521,445 | 624,890 |
| Charge for services | | 150,573 | 82,783 |
| Non-operating revenues | | | |
| State and Federal grants | | 84,138 | 103,323 |
| Grants | | 142,263 | 286,557 |
| Contributions | | 4,538 | 4,925 |
| Other | | 195 | 2,642 |
| ISUS (on behalf) revenue | | 477,489 | 215,087 |
| Total revenues | | 1,380,641 | 1,320,207 |
| Operating expenses: | | | |
| Salaries | | 540,781 | 578,756 |
| Fringe benefits | | 137,155 | 164,354 |
| Purchased services | | 743,881 | 701,621 |
| Materials and supplies | | 28,759 | 23,103 |
| Depreciation | | 49,719 | 48,125 |
| Other operating expenses | | 56,873 | 47,549 |
| Total operating expenses | | 1,557,168 | 1,563,508 |
| Change in net assets | | (176,527) | (243,301) |
| Net assets, beginning of year | | 11,640 | 254,941 |
| Net assets, end of year | $ | (164,887) | 11,640 |

Operating revenues decreased $35,655 as compared to the fiscal year ended June 30, 2007. The decrease was due to a decrease in Foundation payments of $103,445 from current year decrease in student FTE's. Charges for services increased by $67,790 from increased billings for administrative services to the other ISUS Institutes and ISUS Corporation.

Total non-operating revenues increased by $96,089 from the prior fiscal year. Other grants decreased $144,294 due to a reduction in grant funding from the County and on behalf payments increased $262,402 due to an increase in pass through grants from ISUS Corporation.

Total expenses reported for the fiscal year ended June 30, 2008 were $6,340 less than the total expenses for the prior fiscal year. Specifically, payroll and Fringe benefits decreased by $65,174 due to staff reductions. Purchased Services increased $42,260 due to an increase in rent and contract costs. Other operating expenses increased by $9,324 from purchase of bus tokens and sponsorship fees.

**Capital Assets**

For the fiscal year ended June 30, 2008, capitalized costs of capital assets of the School were $323,438, reduced by $122,850 in accumulated depreciation. Table 3 shows the categories of capital assets maintained by The School, net of accumulated depreciation, for the fiscal years ended June 2008 and 2007.

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

| | | 2008 | 2007 |
|---|---|---|---|
| Leasehold improvements | $ | 82,455 | 82,455 |
| Equipment | | 240,983 | 234,964 |
| Less: Accumulated Depreciation | | (122,850) | (73,131) |
| Totals | $ | 200,588 | 244,288 |

The decrease in capital assets was primarily due to current year depreciation.

**Debt**

At June 30, 2008, the School had no 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, 2008

## Assets

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ | 35,170 |
| Accounts receivable | | 127,730 |
| Intergovernmental receivable | | 3,676 |
| Total current assets | | 166,576 |
| Non-current assets, net of accumulated depreciaiton: | | |
| Equipment | | 124,317 |
| Leasehold improvements | | 76,271 |
| Total non-current assets | | 200,588 |
| Total assets | $ | 367,164 |

## Liabilities and Net Assets

| | | |
|---|---|---|
| Liabilities | | |
| Accounts payable | $ | 499,888 |
| Intergovernmental payable | | 1,712 |
| Accrued wages and benefits payable | | 15,840 |
| Compensated absences payable | | 14,106 |
| Accrued liabilities, other | | 505 |
| Total liabilities | | 532,051 |
| Net assets: | | |
| Investment in capital assets | | 200,588 |
| Unrestricted | | (365,475) |
| Total net assets | | (164,887) |
| Total liabilities and net assets | $ | 367,164 |

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, 2008

| | | |
|---|---|---|
| Operating revenues: | | |
| Foundation payments | $ | 521,445 |
| Charge for services | | 150,573 |
| Total operating revenues | | 672,018 |
| Operating expenses: | | |
| Salaries | | 540,781 |
| Fringe benefits | | 137,155 |
| Purchased services | | 743,881 |
| Materials and supplies | | 28,759 |
| Depreciation | | 49,719 |
| Other operating expenses | | 56,873 |
| Total operating expenses | | 1,557,168 |
| Operating loss | | (885,150) |
| Non-operating revenues | | |
| Federal grants | | 76,388 |
| State grants | | 7,750 |
| Other grants | | 142,263 |
| Contributions | | 4,538 |
| Other revenue | | 195 |
| ISUS (on behalf) revenue | | 477,489 |
| Total non-operating revenues | | 708,623 |
| Change in net assets | | (176,527) |
| Net assets, beginning of year | | 11,640 |
| Net assets, end of year | $ | (164,887) |

See accompanying notes to the financial statements.

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from foundation payments | $ | 521,445 |
| Cash received from charges for services | | 261,954 |
| Cash used for employees for services | | (672,578) |
| Cash used for suppliers for goods and services | | (790,560) |
| Net cash used in operating activities | | (679,739) |
| Cash flow from noncapital financing activities | | |
| Cash received from ISUS, Inc. | | 477,489 |
| Cash received from federal, state, private, and local grants | | 226,401 |
| Cash received from contributions | | 4,538 |
| Cash received from miscellaneous activity | | 195 |
| Net cash provided by noncapital financing activities | | 708,623 |
| Cash flow from capital and related financing activities | | |
| Cash used for capital acquisitions | | (6,019) |
| Net cash used in capital and related financing activities | | (6,019) |
| Net increase in cash and cash equivalents | | 22,865 |
| Cash and cash equivalents at the beginning of the year | | 12,305 |
| Cash and cash equivalents at the end of the year | $ | 35,170 |

(Continued)

See accompanying notes to the financial statements.

| | | |
|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities | | |
| Operating loss | $ | (885,150) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | |
| Depreciation | | 49,719 |
| Change in assets and liabilities | | |
| Decrease in accounts receivable | | 96,174 |
| Decrease in intergovernmental receivable | | 15,207 |
| Increase in accounts payable | | 56,460 |
| Decrease in intergovernmental payable | | (1,059) |
| Decrease in accrued wages and benefits payable | | 3,485 |
| Increase in accrued compensated absences payable | | 1,873 |
| Decrease in other liabilities | | (16,448) |
| Net cash used in operating activities | $ | (679,739) |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of The ISUS Institute of Manufacturing (the School) are set forth to facilitate the understanding of data presented in the financial statements.

### Description of organization

The ISUS Institute of Manufacturing 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 2007-2008 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 and cash equivalents**
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, 2008, 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, 2008, $37,846 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, 2008 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, 2008 consisted of the following:

| | | |
|---|---|---|
| ISUS, Inc. | $ | 61,755 |
| The Institute of Health Care | | 26,303 |
| Sinclair Community College | | 39,672 |
| Total accounts receivable | $ | 127,730 |

### Intergovernmental receivable

Intergovernmental receivable at June 30, 2008 consisted of the following:

| | | |
|---|---|---|
| Ohio Department of Education | $ | 3,676 |
| Total intergovernmental receivable | $ | 3,676 |

## 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, 2008, 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 $1,688,500; 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, 2008 and 2007 were $11,186 and $10,359 respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

**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, or by visiting STRS Ohio web-site at www.strsoh.org.

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 allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or combined plan. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2008, 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, 2008 and 2007 were $64,643 and $61,815, respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

**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). Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

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 $4,617 for fiscal year 2008.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was $4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were $265,558,000 and STRS had 122,934 eligible benefit recipients.

**7. OTHER EMPLOYEE BENEFITS-COMPENSATED ABSENCES:**

The criteria for determining vacation and sick leave components are derived from School policy and State laws. Full-time employees earn 2 days of vacation after 90 day of employment and 7 days on the employee's annual employment anniversary. 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, 2008.

### 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 2008.

### Accounts payable

Included in the accounts payable balance is $226,968 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 $270,482 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 $242,737 for administrative services to this organization during fiscal year 2008. At June 30, 2008, the school was due $61,755 from the organization and owed the organization $270,482. 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 $492,296 for administrative services to this organization during fiscal year 2008. At June 30, 2008, the school owed the organization $226,968. 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 $1,574 for administrative services to this organization during fiscal year 2008. At June 30, 2008, the School was due $26,303 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 2008, the School leased a building and office facility under an operating lease ending June 30, 2008 from ISUS Inc. Total lease payments were $110,819 for the year ended June 30, 2008, 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 2008, purchased services expenses were payments for services rendered by various vendors for the following:

| | | |
|---|---|---|
| Professional/Technical Services | $ | 17,454 |
| Contracted Craft/Trade Services | | 521,443 |
| Administrative | | 204,984 |
| Total purchased services | $ | 743,881 |

**12. CAPITAL ASSETS:**

| | | Balance 6/30/2007 | Additions | Reductions | Balance 6/30/2008 |
|---|---|---|---|---|---|
| Capital Assets, being depreciated: | | | | | |
| Furniture and equipment | $ | 234,964 | 6,019 | - | 240,983 |
| Leasehold improvements | | 82,455 | - | - | 82,455 |
| Less: accumulated depreciation | | (73,131) | (49,719) | - | (122,850) |
| Capital assets, net | $ | 244,288 | (43,700) | - | 200,588 |

**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, 2008, to the School as defined in Note 9. The School paid $492,296 for administrative services to this organization during fiscal year 2008. 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, 2008, to the School as defined in Note 9. The School paid $1,574 for administrative services to this organization during fiscal year 2008. 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 $242,737 for administrative services to this organization during fiscal year 2008, 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, 2008 consisted of the following:

| | | |
|---|---|---|
| City of Dayton | $ | 48 |
| School Employees Retirement System | | 618 |
| Treasurer of State of Ohio | | 1,046 |
| Total intergovermental payable | $ | 1,712 |

## 15. ACCOUNTS PAYABLE:

Accounts payable at June 30, 2008 consisted of the following:

| | | |
|---|---|---|
| The Institute of Construction Technology | $ | 226,968 |
| ISUS, Inc. | | 270,482 |
| Other | | 2,438 |
| Total accounts payable | $ | 499,888 |

**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 Directors
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, 2008, and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 School'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

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 School'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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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 Directors, management, others within the School 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 17, 2008

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

None

Mary Taylor, CPA
Auditor of State

**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 24, 2009**

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