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## **THE ISUS INSTITUTE OF MANUFACTURING**

Financial Statements

June 30, 2009

(with Independent Auditors' Report)





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the ISUS Institute of Manufacturing, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2008 through June 30, 2009. 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

December 18, 2009

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## 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, 2009, 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, 2009, 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 November 30, 2009, 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  
November 30, 2009

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**THE ISUS INSTITUTE OF MANUFACTURING**  
Montgomery County

Management's Discussion And Analysis  
For The Period Ended June 30, 2009  
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, 2009. 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 2009 are as follows:

- Total assets increased by \$180,541, which represents a 49 percent increase from the prior year. The increase resulted primarily from \$212,722 increase in due from related parties, \$22,895 increase in accounts receivable, \$5,567 in intergovernmental receivable, and \$13,905 increase in prepaid expenses, offset by \$28,706 decrease in cash and cash equivalents and a \$45,842 decrease in capital assets, net of accumulated depreciation.
- Total liabilities decreased \$181,733 or 34 percent from the prior year. The decrease resulted from \$165,709 decrease in due from related parties, \$8,224 decrease in accrued wages and benefits payable, \$10,869 decrease in compensated absences payable and \$289 decrease in other accrued liabilities. Accounts and intergovernmental payable increased by \$3,358.
- The operating loss reported for the period ended June 30, 2009, \$432,893 was \$452,257 less than the operating loss reported for the period ended June 2008.

### **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.

**THE ISUS INSTITUTE OF MANUFACTURING**  
Montgomery County

Management's Discussion And Analysis  
For The Period Ended June 30, 2009  
Unaudited

Table 1 provides a summary of the School's net assets for the fiscal year ending June 30, 2009 compared with the fiscal year ended June 30, 2008.

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

	<u>2009</u>	<u>2008</u>
Assets		
Current and other assets	\$ 392,959	166,576
Capital assets, net	<u>154,746</u>	<u>200,588</u>
 Total assets	 <u><u>547,705</u></u>	 <u><u>367,164</u></u>
Liabilities:		
Current liabilities	<u>350,318</u>	<u>532,051</u>
 Total liabilities	 350,318	 532,051
Net assets:		
Invested in capital assets	154,746	200,588
Unrestricted	<u>42,641</u>	<u>(365,475)</u>
 Total net assets	 \$ <u><u>197,387</u></u>	 <u><u>(164,887)</u></u>

Total net assets of the School increased by \$362,274.

The increase of \$226,383 in current assets resulted from \$212,722 increase in due from related parties, \$22,895 increase in accounts receivable, \$5,567 in intergovernmental receivable, and \$13,905 increase in prepaid expenses, offset by \$28,706 decrease in cash and cash equivalents.

The \$45,842 decrease in capital assets was due to current year depreciation of \$51,007, offset by current year equipment additions of \$5,165.

The decrease of \$181,733 in current liabilities resulted from \$165,709 decrease in due from related parties, \$8,224 decrease in accrued wages and benefits payable, \$10,869 decrease in compensated absences payable and \$289 decrease in other accrued liabilities. A significant portion of the due to related parties includes amounts due to ISUS, Inc. and ISUS Institute of Construction Technology for classroom rental and administrative services.



**THE ISUS INSTITUTE OF MANUFACTURING**  
Montgomery County

Management's Discussion And Analysis  
For The Period Ended June 30, 2009  
Unaudited

Table 2 shows a summary of revenues and expenditures compared for the period ended June 2009 and June 2008.

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

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Foundation payments	\$ 305,904	521,445
Charge for services	327,755	150,573
Non-operating revenues		
State and Federal grants	64,254	84,138
Grants	232,506	142,263
Contributions	-	4,538
Other	-	195
ISUS (on behalf) revenue	<u>498,407</u>	<u>477,489</u>
 Total revenues	 <u>1,428,826</u>	 <u>1,380,641</u>
 Operating expenses:		
Salaries	257,604	540,781
Fringe benefits	106,734	137,155
Purchased services	564,757	743,881
Materials and supplies	6,947	28,759
Depreciation	51,007	49,719
Other operating expenses	<u>79,503</u>	<u>56,873</u>
 Total operating expenses	 <u>1,066,552</u>	 <u>1,557,168</u>
 Change in net assets	 362,274	 (176,527)
 Net assets, beginning of year	 <u>(164,887)</u>	 <u>11,640</u>
 Net assets, end of year	 \$ <u>197,387</u>	 <u>(164,887)</u>

Operating revenues decreased \$38,359 as compared to the fiscal year ended June 30, 2008. A drop in the number of students enrolled during 2009 resulted in the \$215,541 decrease in Foundation payments. Charges for services increased by \$177,182 from increased billings for administrative services to the two other ISUS Institutes and ISUS Corporation.

Total non-operating revenues increased by \$86,544 from the prior fiscal year. Other grants increased by \$90,243 due to an increase in grant funding from the County. Revenue from on behalf payments made by other ISUS Institutes and ISUS Corporation increased \$20,918 as a result of partial forgiveness of outstanding payables by these parties.

**THE ISUS INSTITUTE OF MANUFACTURING**  
Montgomery County

Management's Discussion And Analysis  
For The Period Ended June 30, 2009  
Unaudited

Total expenses reported for the fiscal year ended June 30, 2009 were \$490,616 less than the total expenses for the prior fiscal year. Specifically, payroll and fringe benefits decreased by \$313,598 due to staff reductions during the year. Purchased Services decreased \$179,124 due to reduction in rent and contract costs. Other operating expenses increased by \$22,630 from the write off of uncollectible receivables.

**Capital Assets**

For the fiscal year ended June 30, 2009, capitalized costs of capital assets of the School were \$328,603, reduced by \$173,857 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 2009 and 2008.

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

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 82,455	82,455
Equipment	246,148	240,983
Less: Accumulated Depreciation	<u>(173,857)</u>	<u>(122,850)</u>
Totals	<u>\$ 154,746</u>	<u>200,588</u>

The decrease in capital assets was primarily due to current year depreciation. See note 12 to the financial statements for additional details on capital assets.

**Debt**

At June 30, 2009, 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, 2009

**Assets**

## Current assets:

Cash and cash equivalents	\$	6,464
Accounts receivable		62,567
Intergovernmental receivable		9,243
Due from related parties		300,780
Prepaid expenses		<u>13,905</u>

Total current assets 392,959

## Non-current assets, net of accumulated depreciation:

Equipment		80,536
Leasehold improvements		<u>74,210</u>

Total non-current assets 154,746

Total assets \$ 547,705

**Liabilities and Net Assets**

## Liabilities

Accounts payable	\$	7,508
Due to related parties		331,741
Accrued wages and benefits payable		7,616
Compensated absences payable		3,237
Accrued liabilities, other		<u>216</u>

Total liabilities 350,318

## Net assets:

Investment in capital assets		154,746
Unrestricted		<u>42,641</u>

Total net assets 197,387

Total liabilities and net assets \$ 547,705

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, 2009

Operating revenues:		
Foundation payments	\$	305,904
Charge for services		<u>327,755</u>
Total operating revenues		<u>633,659</u>
Operating expenses:		
Salaries		257,604
Fringe benefits		106,734
Purchased services		564,757
Materials and supplies		6,947
Depreciation		51,007
Other operating expenses		<u>79,503</u>
Total operating expenses		<u>1,066,552</u>
Operating loss		<u>(432,893)</u>
Non-operating revenues		
Federal grants		59,364
State grants		4,890
Other grants		232,506
ISUS (on behalf) revenue		<u>498,407</u>
Total non-operating revenues		<u>795,167</u>
Change in net assets		362,274
Net assets, beginning of year		<u>(164,887)</u>
Net assets, end of year	\$	<u>197,387</u>

See accompanying notes to the financial statements.

**THE ISUS INSTITUTE OF MANUFACTURING**

Statement of Cash Flows

Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from foundation payments	\$ 305,904
Cash received from charges for services	86,571
Cash used for employees for services	(397,336)
Cash used for suppliers for goods and services	<u>(448,768)</u>
Net cash used in operating activities	<u>(453,629)</u>
Cash flow from noncapital financing activities	
Cash received from related parties	133,328
Cash received from federal, state, private, and local grants	<u>296,760</u>
Net cash provided by noncapital financing activities	<u>430,088</u>
Cash flow from capital and related financing activities	
Cash used for capital acquisitions	<u>(5,165)</u>
Net decrease in cash and cash equivalents	(28,706)
Cash and cash equivalents at the beginning of the year	<u>35,170</u>
Cash and cash equivalents at the end of the year	\$ <u><u>6,464</u></u>

(Continued)

See accompanying notes to the financial statements.

**THE ISUS INSTITUTE OF MANUFACTURING**

Statement of Cash Flows (Continued)

Year Ended June 30, 2009

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (432,893)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	51,007
Bad debt expense	49,516
Accounts payable forgiven	365,079
Change in assets and liabilities	
Accounts receivable	(72,411)
Intergovernmental receivable	(5,567)
Due from related parties *	(212,722)
Prepaid expenses	(13,905)
Accounts payable	5,070
Intergovernmental payable	(1,712)
Due to related parties	(165,709)
Accrued wages and benefits payable	(8,224)
Accrued compensated absences payable	(10,869)
Other liabilities	<u>(289)</u>
Net cash used in operating activities	\$ <u><u>(453,629)</u></u>

\* Includes \$365,079 in outstanding due to related parties forgiven (see note 9)

See accompanying notes to the financial statements

**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 Governance. The Board is ultimately responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional facility that was staffed by 5 certificated counseling and teaching personnel, 0 non-certificated instructional staff persons, and 1 non-certificated administrative staff. Approximately eighty two (82) students were served during the 2008-2009 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 School has elected not to apply the provisions for the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The School has elected not to apply the provisions for the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. 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, which is 5 years for equipment and 40 years for leasehold improvements.

**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, 2009, 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, 2009, \$6,464 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, 2009 include of amounts due from the following sources. These receivables are considered collectible in full.

Accounts Receivable at June 30, 2009 consisted of the following:

School Improvement	\$ 53,272
Sinclair Community College	9,080
Other	<u>215</u>
Total accounts receivable	<u>\$ 62,567</u>

Bad debt expense was \$49,516 for the year ended June 30, 2009.

**Intergovernmental receivable**

Intergovernmental receivable at June 30, 2009 consisted of the following:

Grants	\$ 432
Title Idea-B	2,593
Ohio Department of Education	<u>6,218</u>
Total intergovernmental receivable	<u>\$ 9,243</u>

**Due from related parties**

Due from related parties at June 30, 2009 include amounts due the School from The ISUS Institute of Construction Technology, The ISUS Institute of Health Care and ISUS Inc., for state, federal, and other sources received by these related parties that are passed through to the School. These amounts are considered collectible in full, due to the stable condition of the related parties.

Due from related parties at June 30, 2009 consisted of the following:

ISUS, Inc.	\$ 143,903
The Institute of Construction Technology	139,036
The Institute of Health Care	<u>17,841</u>
Total due from related parties	<u>\$ 300,780</u>

**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, 2009, the School contracted with the Cincinnati Insurance Company for property and general liability insurance.

The School leased a facility on which it is insured with ISUS Inc., with coverage provided by The Cincinnati Insurance Company. Coverage included personal property \$1,686,500; 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:**

**A. 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](http://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 DC 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 into an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. 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 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, 2009, 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 to STRS Ohio for the fiscal year ended June 30, 2009, 2008 and 2007 were \$27,725, \$64,643 and \$61,815, respectively; equal to required contributions for each year.

**B. 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 Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800) 878-5853. It is also posted on SERS's website, [www.ohsers.org](http://www.ohsers.org), under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$4,508, \$11,186 and \$10,359 respectively; which equaled the required contributions for each year.

**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). Interested parties may obtain additional information regarding benefits provided by each system by obtaining the respective *Comprehensive Annual Financial Report* by following the directions noted in Note 5 above.

**A. State Teachers Retirement System**

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2009, 2008 and 2007. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The amount of the Schools contributions to STRS allocated to post-employment health care for the years ended June 30, 2009, 2008 and 2007 were \$2,133, \$4,617, and \$4,755, respectively; 100 percent has been contributed for all years.

**B. School Employee Retirement System**

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System (SERS) administers two postemployment benefit plans, Medicare Part B and Health Care Plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which may be obtained using the contact information noted in the preceding disclosure.

Medicare Part B Plan: The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in the Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40, SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation is .75 percent of covered payroll. The School's contributions for the years ended June 30, 2009, 2008 and 2007 were \$241, \$527 and \$503, respectively, which equaled the required contributions each year. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State Statute.

Health Care Plan: Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

Active members do not make contributions to the postemployment benefit plans. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation was 4.16 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2009, 2008, and 2007 were \$1,340, \$3,340 and \$2,457, respectively.

**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, 2009.

**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:**

**Due to related parties**

Included in due to related parties balance is \$119,344 and \$8,152 due to The ISUS Institute of Construction Technology and The ISUS Institute of Health Care, respectively, for reimbursement of administrative employees' payroll and pass through of grant funds. Also, included in the due to related parties is \$204,245 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 Governance. The School paid \$295,898 for administrative services to this organization during fiscal year 2009. At June 30, 2009, the school was due \$143,903 from the organization and owed the organization \$204,245. During fiscal year 2009, ISUS forgave \$68,845 of outstanding payables from the School, which has been reported as additional on behalf payments revenue for the year. 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 community school in the State of Ohio, operated under the direction of the same Board of Governance. The School paid \$110,612 for administrative services to this organization during fiscal year 2009. At June 30, 2009, the school was due \$139,036 from the organization and owed the organization \$119,344. During fiscal year 2009, The ISUS Institute of Construction Technology forgave \$296,234 of outstanding payables from the School, which has been reported as additional on behalf payments revenue for the year. 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 MANUFACTURING**

Notes to the Financial Statements

June 30, 2009

**The ISUS Institute of Health Care**

The ISUS Institute of Health Care is a not-for-profit community school in the State of Ohio, operated under the direction of the same Board of Governance as this School. The School paid \$4,079 for administrative services to this organization during fiscal year 2009. At June 30, 2009, the School was due \$17,841 from the organization and owed the organization \$8,152. 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 2009, the School leased a building and office facility under an operating lease ending June 30, 2009 from ISUS Inc. Total lease payments were \$61,332 for the year ended June 30, 2009, 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 2009, purchased services expenses were payments for services rendered by various vendors for the following:

Professional/Technical Services	\$ 7,405
Contracted Craft/Trade Services	426,139
Administrative	<u>131,213</u>
Total purchased services	<u>\$ 564,757</u>

**12. CAPITAL ASSETS:**

	Balance 6/30/2008	Additions	Reductions	Balance 6/30/2009
Capital Assets, being depreciated:				
Furniture and equipment	\$ 240,983	5,165	-	246,148
Less: accumulated depreciation	(116,666)	(48,946)	-	(165,612)
Leasehold improvements	82,455	-	-	82,455
Less: accumulated depreciation	<u>(6,184)</u>	<u>(2,061)</u>	<u>-</u>	<u>(8,245)</u>
Capital assets, net	<u>\$ 200,588</u>	<u>(45,842)</u>	<u>-</u>	<u>154,746</u>

**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 Governance 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 Governance that operates the School. The School provides administrative services to the abovementioned community school with an amount due, as of June 30, 2009, to the School as defined in Note 9. The School paid \$110,612 for administrative services to this organization during fiscal year 2009. Also, during fiscal year 2009, The ISUS Institute of Construction

**THE ISUS INSTITUTE OF MANUFACTURING**

Notes to the Financial Statements

June 30, 2009

Technology forgave \$296,234 of outstanding payables from the School, which has been reported as additional on behalf payments revenue for the year. 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 Governance that operates the School. The School provides administrative services to the abovementioned community school with an amount due, as of June 30, 2009, to the School as defined in Note 9. The School paid \$4,079 for administrative services to this organization during fiscal year 2009. 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 Governance. The School paid \$295,898 for administrative services to this organization during fiscal year 2009, to the School as defined in Note 9. Also, during fiscal year 2009, ISUS forgave \$68,845 of outstanding payables from the School, which has been reported as additional on behalf payments revenue for the year. 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. DUE TO RELATED PARTIES:**

Due to related parties at June 30, 2009 include amounts due to The ISUS Institute of Construction Technology, The ISUS Institute of Health Care and ISUS Inc., for shared administrative services provided by these related parties to the School.

Due to related parties at June 30, 2009 consisted of the following:

The Institute of Construction Technology	\$	119,344
ISUS, Inc.		204,245
The Institute of Health Care		<u>8,152</u>
Total due to related parties	\$	<u>331,741</u>



**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 Governance  
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, 2009, and have issued our report thereon dated November 30, 2009. 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.

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*.

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springfield, oh 45503  
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p. 937.399.2000  
f. 937.399.5433

This report is intended solely for the information and use of the Board of Governance, management, others within the School 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  
November 30, 2009

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

None

## **INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

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

To the Board of Governance:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether The ISUS Institute of Manufacturing has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 10, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B), except for the reporting requirement #10 described below:
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended – as of November 30, 2009, The ISUS Institute of Manufacturing has not had any reported incidents, therefore, a summary has not been posted on the web site.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
November 30, 2009

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At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success



**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  
DECEMBER 31, 2009**