
THE ISUS INSTITUTE OF MANUFACTURING

CLOSEOUT AUDIT

Financial Statements

June 30, 2012

with Independent Auditors' Report



Dave Yost • 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 ISUS Institute of Manufacturing, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2011 through June 30, 2012. 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. ISUS Institute of Manufacturing is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 4, 2013

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INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying financial statement of The ISUS Institute of Manufacturing (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The School has been named in a judgment (see footnote 11) with the related parties ISUS, Inc., The ISUS Institute of Construction and the ISUS Institute of Health Care. Due to the pending outcome of this judgment the closeout procedures required by the Ohio Department of Education have not been completed.

Due to the significance of the matter referred to in the preceding paragraph is unknown and that the closeout procedures have not been completed we are not able to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

As described in footnote 1, the Board of Trustees closed the school as of June 30, 2012 due to financial distress and pending litigation.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, 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.

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Management has not presented the required management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the reporting for placing financial statements in an appropriate operational, economic, or historical context.

Clark Schaefer Hackett & Co.

Springfield, Ohio
January 31, 2013

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ISUS INSTITUTE OF MANUFACTURING

Statement of Cash Receipt, Cash Disbursements and Change in Cash Balance

Year Ended June 30, 2012

Operating cash receipts:		
Foundation payments	\$	247,543
Charges for services		61,455
Miscellaneous		<u>250</u>
Total operating cash receipts		<u>309,248</u>
Operating cash disbursements:		
Salaries		104,492
Fringe benefits		48,041
Purchased services		194,222
Materials and supplies		2,679
Other operating expenses		<u>48,396</u>
Total operating cash disbursements		<u>397,830</u>
Operating loss		<u>(88,582)</u>
Non-operating cash receipts:		
Federal grants		43,014
Other grants		11,730
ISUS (on behalf) revenue		<u>33,041</u>
Total non-operating cash receipts		<u>87,785</u>
Net receipts under disbursements		<u>(797)</u>
Cash balance, July 1, 2011		<u>16,160</u>
Cash balance, June 30, 2012	\$	<u>15,363</u>

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 are set forth to facilitate the understanding of data presented in the financial statements.

Description of organization

The ISUS Institute of Manufacturing (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 as an organization operated exclusively for educational purposes. The School is exempt under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

Specifically, the mission of the School is to advance youth through a program of academic education, employment training, personal and leadership development, and service learning. Students will graduate with the knowledge, skills and attitudes required for employment in the manufacturing industry. The School is a degree granting high school and serves students from age sixteen through twenty-one.

The School, which is part of the State's education program, is independent of any school district. It may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School in April 1999. The Ohio Department of Education approved the proposal and entered into a contract with the developers effective June 6, 2001. The first school year, for students, began on July 19, 2004.

The school operates under a five member Board of 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 4 certificated teaching personnel. Approximately sixty one (61) students were served during the 2011-2012 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 10 to the financial statements.

On June 30, 2012, the Board of Trustees of the School approved the closure of the School due to financial distress and litigation disclosed in footnote 11.

Financial statement presentation

In prior years, 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 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.

Basis of accounting

The financial statements were prepared on the cash basis of accounting.

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. The bank balance at June 30, 2012 was \$15,445.

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, 2012, all of the School's bank balance was covered within the federal deposit insurance limit. The balance in excess of the federal deposit insurance limit was covered by pooled investments held by the bank where the funds were held during the year.

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. 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, 2012, 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 \$1,005,000; employee dishonesty \$100,000; 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 paid 80% of the monthly premium and the employee is responsible for the remaining 20%, except for dental insurance which was 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.

4. DEFINED PENSION BENEFITS PLANS:

A. State Teachers Retirement System

Plan Description – The School District 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options – 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's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The School District's required contributions to STRS Ohio for the DB Plan were \$13,257, \$22,492 and \$21,154, respectively, for the fiscal year ended June 30, 2012, 2011, and 2010.

5. 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

Plan Description – The School District contributes to the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,020, \$1,607, and \$1,511, respectively; 100 percent has been contributed for all years.

6. CONTINGENCIES:

Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District as August 31, 2012, if applicable, cannot be determined at this time.

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. The review of fiscal year 2012 reconciliation revealed an underpayment of state funding to the School of \$1,330 for the year. This amount has been included as a component of intergovernmental receivables within these financial statements.

7. RELATED PARTY TRANSACTIONS:

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 \$66,960 for administrative services to this organization during fiscal year 2012. To obtain financial information, write to Improved Solutions for Urban Systems, Inc. (ISUS), Ann Higdon, President, at 140 North Keowee Street, Dayton, Ohio 45402.

The ISUS Institute of Construction Technology

The ISUS Institute of Construction Technology was a community school in the State of Ohio, operated until closure on June 30, 2012, under the direction of the same Board of Governance. The School paid \$137,662 for administrative services to this organization during fiscal year 2012. To obtain financial information, write to The ISUS Institute of Construction, Ann Higdon, President, at 140 North Keowee Street, Dayton, OH 45402. On June 30, 2012, the Board of Trustees of the ISUS Institute of Construction voted to close the School due to financial distress.

The ISUS Institute of Health Care

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 as this School. The School paid \$2,650 for administrative services to this organization during fiscal year 2012. To obtain financial information, write to The ISUS Institute of Health Care, Ann Higdon, President, at 140 North Keowee Street, Dayton, Ohio 45402. On August 31, 2012, the Board of Trustees of the ISUS Institute of Health Care voted to suspend operations.

8. PURCHASED SERVICES:

For the fiscal year 2012, purchased services expenses were payments for services rendered by various vendors for the following:

Contracted Craft/Trade Services	\$ 171,049
Administrative	22,435
Professional/Technical Services	<u>738</u>
Total purchased services	<u>\$ 194,222</u>

9. OPERATING LEASE

During fiscal year 2012, the School leased a building and office facility under an operating lease ending June 30, 2012 from ISUS Inc. Total lease payments were \$21,398 for the year ended June 30, 2012, 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.

10. 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 Manufacturing Technology, Montgomery County, Ann Higdon, President, at 140 North Keowee Street, Dayton, Ohio 45402.

The ISUS Institute of Construction Technology was a community school in the State of Ohio, operated until closure on June 30, 2012, under the direction of the same Board of Governance that operates the School. The School paid \$137,662 for administrative services to this organization during fiscal year 2012. To obtain financial information, write to The ISUS Institute of Construction, Montgomery County, Ann Higdon, President, at 140 North Keowee Street, Dayton, Ohio 45402. On June 30, 2012, the Board of Trustees of the ISUS Institute of Construction voted to close the School due to financial distress.

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 paid \$2,650 for administrative services to this organization during fiscal year 2012. To obtain financial information, write to The ISUS Institute of Health Care, Ann Higdon, President, at 140 North Keowee Street, Dayton, Ohio 45402. On August 31, 2012, the Board of Trustees of the ISUS Institute of Health Care voted to suspended operations.

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 \$66,960 for administrative services to this organization during fiscal year 2012, to the School as defined in Note 7. To obtain financial information, write to Improved Solutions for Urban Systems, Inc. (ISUS), Ann Higdon, President, at 140 North Keowee Street, Dayton, Ohio 45402.

11. LITIGATION:

On February 13, 2012, PNC Bank filed a judgment against ISUS Institute of Construction, the ISUS Institute of Manufacturing, the ISUS Institute of Health Care and ISUS, Inc. totaling \$1,165,101 resulting from a debt owed by ISUS, Inc. On November 1, 2012, the buildings and the personal property contained therein that were owned by ISUS, Inc were sold. As a result of the sale, about \$567,060 was paid to PNC Bank to reduce the obligation amount, leaving a balance due of approximately \$600,000.

As of June 30, 2012, ISUS, Inc. also has a note payable to the Estate of Lowell Thomas Wood. Due to this unpaid debt, the Estate of Lowell Thomas Wood has asserted a claim in the pending litigation noted in the preceding paragraph. Management believes a tentative settlement has been reached regarding this claim and believes ISUS, Inc. will enter into an Agreed Judgment acknowledging that it owes \$1,497,471, plus interest at 8.75%.

12. SCHOOL CLOSURE:

On June 30, 2012, the Board of Trustees of the School voted to close the School due to financial distress.

At June 30, 2012, the School had accounts receivable of \$15,183, all of which was collected subsequent to year end.

At June 30, 2012, the School had accounts payable of \$20,181, all of which was paid subsequent to year end.

The disposition of the capital assets for the School is not known.

The disposition of the remaining cash balance is not known.

**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 were engaged to audit the financial statements of The ISUS Institute of Manufacturing, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013, wherein we did not express an opinion due to the significance of pending litigation and the School has not performed the required close out procedures.

Internal Control Over Financial Reporting

Management of The ISUS Institute of Manufacturing is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our engagement, we considered the School'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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and correct on a timely basis.

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 School'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2012-01.

The School's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the School's response and, accordingly, we express no opinion on it.

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



Springfield, Ohio
January 31, 2013

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

Finding Number	2012-01
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Ohio Rev. Code Section 3314.015(E) states that the department shall adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation, which shall include at least procedures for data reporting to the department, handling of student records, distribution of assets in accordance with section 3314.074 of the Revised Code, and other matters related to ceasing operation of the school.

The Ohio Department of Education has developed Community School Closing Procedures Assurances; the purpose of this document is to assure ODE that a sponsor has followed legally required community school closing procedures in a timely manner. Sponsors must provide and execute a plan for the closure of community schools they sponsor prior to the school closing its doors. Sponsors are required to complete and sign this assurance to ODE that proper notifications occur, records are properly distributed and assets are properly disposed with dates recorded in the cells including a final FTE review and scheduling of the final state audit within 30 days of closure of the school.

The School and Sponsor began to perform the close-out procedures required upon closure of the school, however, the process was not completed as of the date of the audit report to include:

Disposition of assets

- The sponsor should consult with its legal counsel prior to implementing this section to determine if there are any outstanding federal or state claims that may need to be paid first include but not limited to federal and state taxes, Medicare, worker's compensation, and city wage taxes. If applicable, provide documentation of any workers compensation claims.
- Private creditors or those entities that have secured a judgment against the school, including audit preparation and audit costs (prepared financials)
- Any remaining funds shall be forwarded to ODE for redistribution to resident school districts in accordance with ORC 3314.074(A)

Final Payment and Adjustments

- Receive any funds or adjustments credited to the account of the closed school
- Determine if any portion of any funds or adjustments can be applied to satisfy any remaining debts send all or the remaining portion to the Ohio Department of Education, Office of Policy and Payments, for final disposition

The School's Sponsor should contact the Ohio Department of Education to rectify any outstanding items associated with the closing of the school.

Official's Response:

The Sponsor is working to complete the required closeout procedures. Due to the pending judgment against the School, note 11, the Sponsor has been unable to complete the procedures.



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



Dave Yost • 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
APRIL 16, 2013**