



**TECHCON INSTITUTE COMMUNITY SCHOOL
MONTGOMERY COUNTY**

INITIAL AUDIT

FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005



**Auditor of State
Betty Montgomery**

TECHCON INSTITUTE
MONTGOMERY COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

TechCon Institute
Montgomery County
2075 Shiloh Springs Road
P.O. Box 60592
Dayton, Ohio 45406

To the Board of Directors:

We have audited the accompanying basic financial statements of TechCon Institute Community School, Montgomery County, (the Institute), as of and for the period September 1, 2004 through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Institute'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 TechCon Institute as of June 30, 2005, and the changes in its financial position and its cash flows for the period 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 6, 2005, on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 6, 2005

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Unaudited)**

The discussion and analysis of TechCon Institute's (the Institute) financial performance provides an overall review of the Institute's financial activities for the period ended June 30, 2005. The intent of this discussion and analysis is to look at the Institute's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Institute's financial performance.

Financial Highlights

Key financial highlights for the period ended June 30, 2005 are as follows:

In total, net assets were \$98,345 at June 30, 2005.

The Institute had operating revenues of \$394,262 and operating expenses of \$323,491. The Institute also received \$27,833 in state grants and paid \$259 in interest on a revolving loan. The total change in net assets for the period was \$98,345.

Using the Basic Financial Statements

This annual report consists of the management discussion and analysis, the basic financial statements and the notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Activities and a Statement of Cash Flows. These statements are organized so the reader can understand the Institute's financial activities.

Reporting the Institute's Financial Activities

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Institute, including all short-term and long-term financial resources and obligations. These documents look at all financial transactions and ask the question, "How did we do financially during the period?" These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting records revenue when earned and expenses when incurred regardless of when cash is received or paid.

These two statements report the Institute's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the Institute as a whole, the financial position of the Institute has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Institute finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

Table 1 provides a summary of the Institute's net assets for the period ended June 30, 2005. Since this is the first year of operations for the Institute, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Unaudited)
(Continued)**

**Table 1
Net Assets**

	2005
Assets	
Current and Other Assets	\$142,058
Capital Assets, Net	<u>5,140</u>
Total Assets	147,198
Liabilities	
Current Liabilities	<u>48,853</u>
Total Liabilities	48,853
Net Assets	
Invested in Capital Assets	5,140
Restricted for Special Purposes	6,199
Unrestricted	<u>87,006</u>
Total Net Assets	<u>\$98,345</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Institute's assets exceeded its liabilities by \$98,345. Current assets are primarily attributable to ending cash balances of TechCon's funds of \$140,585. This consists of \$134,343 in the General Fund and \$6,242 in the State Community School Grant Fund. Total liabilities (as noted above in the amount of \$48,853) are predominately attributable to accrued wages and benefits at year end.

Table 2 shows the changes in net assets for the period ended June 30, 2005, as well as a listing of revenues and expenditures. Since this is the first year of operation for the Institute, revenue and expense comparisons are not available. In future years, when prior-year information is available, a comparative analysis will be presented.

**Table 2
Changes in Net Assets**

	<u>2005</u>
Operating Revenues	
State Foundation	\$392,856
Other Operating Revenues	<u>1,406</u>
Total Operating Revenues	394,262
Non- Operating Revenues	
State Grants	<u>27,833</u>
Total Revenues	422,095
Operating Expenses	
Salaries	126,275
Fringe Benefits	38,878
Purchased Services	47,747
Materials and Supplies	58,482
Depreciation	180
Other	<u>51,929</u>
Total Operating Expenses	323,491
Non-Operating Expenses	
Interest and Fiscal Charges	<u>259</u>
Total Expenses	<u>323,750</u>

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Unaudited)
(Continued)**

Increase in Net Assets

\$98,345

Community schools receive no support from taxes. The State Foundation Program, which pays the institute approximately \$5,300 per student, and Federal and State Grants are, by far, the primary support for the Institute's students. State Foundation payments accounted for approximately 93 percent of all revenues and State grants accounted for another 6.5 percent of revenues.

Capital Assets

At June 30, 2005, the Institute had \$5,140 invested in machinery and equipment.

For more information on capital assets, see Note 5 of the Basic Financial Statements.

Debt

At June 30, 2005, the Institute had a revolving loan outstanding with National City Bank in the amount of \$6,802. The interest rate on the loan is 10 percent. It was issued for the purpose of making renovations to the space leased from the Regional Transit Authority. For more information on the Institute's debt, see Note 13 of the Basic Financial Statements.

Current Financial Issues and Concerns

The Institute is sponsored by the Lucas County Educational Service Center. The Institute relies on the State Foundation funds as well as State grants to provide the monies necessary to begin and carry on the activities of the Institute. The administration considered many factors when setting TechCon's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined based on the student count and the foundation allowance per pupil. With the move to a new facility and opening later than projected for 2006 school year the enrollment has decreased. Due to this factor the 2006 fiscal year budget was based on an estimated enrollment of 50 students. Staffing contracts are being adjusted per student enrollment and expenditures are budgeted conservatively. The School will be spending at least \$30,000 in lease-hold renovations to prepare the new facility. The \$30,000 shall off-set the majority of the first year's rental payments, except the first months rent.

Contacting the Institute's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Institute's finances and to show the Institute's accountability for the money it receives. If you have questions about this report or need additional financial information contact Deborah Dynes, Treasurer, TechCon Institute, 2075 Shiloh Springs Road, Dayton, OH 45406.

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**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

Assets:

Current Assets

Equity in Pooled Cash and Cash Equivalents	\$140,585
Prepaid Items	473
Accounts Receivable, Net of Uncollectible Accounts	<u>1,000</u>
Total Current Assets	<u>142,058</u>

Non-Current Assets

Capital Assets, Net	<u>5,140</u>
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Total Assets	<u><u>\$147,198</u></u>
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Liabilities:

Current Liabilities

Accrued Wages and Benefits Payable	\$29,913
Compensated Absences Payable	1,539
Intergovernmental Payable	8,160
Accounts Payable	2,384
Accrued Interest Payable	55
Loan Payable	<u>6,802</u>
Total Current Liabilities	<u>48,853</u>

Net Assets

Invested in Capital Assets	5,140
Restricted for Special Purposes	6,199
Unrestricted	<u>87,006</u>

Total Net Assets	<u><u>\$98,345</u></u>
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See accompanying notes to the basic financial statements

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2005**

Operating Revenues:	
State foundation	\$392,856
Other Operating Revenue	1,406
Total Operating Revenues	<u>394,262</u>
Operating Expenses	
Salaries	126,275
Fringe Benefits	38,878
Purchased Services	47,747
Materials and Supplies	58,482
Depreciation	180
Other	51,929
Total Operating Expenses	<u>323,491</u>
Operating Loss	<u>70,771</u>
Non-Operating Revenues	
State Grants	27,833
Interest and Fiscal Charges	(259)
Total Non-Operating Revenues and Expenses	<u>27,574</u>
Change in Net Assets	98,345
Net Assets at September 1, 2004	<u> </u>
Net Assets at June 30, 2005	<u><u>\$98,345</u></u>

See accompanying notes to the basic financial statements.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State foundation	\$392,856
Cash Received from Other Operating Revenues	406
Cash Payments for Employee Services and Benefits	(126,014)
Cash Payments for Goods and Services	(103,960)
Cash Payments for Other Operating Expenses	(51,814)
Net Cash Used In Operating Activities	111,474

Cash Flows from Noncapital Financing Activities:

State Grants	27,833
Proceeds of Loan	11,802
Loan Principal Payments	(5,000)
Loan Interest Payments	(204)
Net Cash Provided by Noncapital Financing Activities	34,431

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Asset	(5,320)
Net Cash Used for Capital and Related Financing Activities	(5,320)

Net Increase in Cash and Cash Equivalents 140,585

Cash and Cash Equivalents September 1, 2004 _____

Cash and Cash Equivalents June 30, 2005 \$140,585

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities:**

Operating Income \$70,771

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation 180

Changes in Assets and Liabilities:

Increase in Prepaid Items	(473)
Increase in Accounts Receivable	(1,000)
Increase in Accrued Wages and Benefits	29,913
Increase in Compensated Absences Payable	1,539
Increase in Intergovernmental Payable	8,160
Increase in Accounts Payable	2,384
Net Cash Used In Operating Activities	\$111,474

See accompanying notes to the basic financial statements.

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**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005**

1. DESCRIPTION OF THE INSTITUTE AND REPORTING ENTITY

TechCon Institute (the "Institute") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to serve as an Information Technology Community School serving at-risk high school students. The Institute, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Institute may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Institute. The Institute is in the process of obtaining tax exempt status 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 Institute's tax-exempt status.

The Institute's mission is to help students succeed by educating and graduating students, along with providing training in the field of Information Technology in such areas as Networking, EDI Communications, Application Development, Database Management and Computer Maintenance and Repair. Both the academics and technical areas use innovative methods of teaching, catering to students who are looking for different methods of teaching than are used in traditional schools. The Institute offers flexible schedules, computer-based academic curriculum, individualized proficiency preparation and vocational training from certified teachers.

The Institute was approved under contract with the Sponsor, the Lucas County Educational Service Center, for a period of five years ending June 30, 2009. The Institute began operations on September 1, 2004. The Sponsor is responsible for evaluating the performance of the Institute and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the Institute.

The Institute operates under the direction of a Board of Directors, consisting of not less than five members chosen from leaders from the broad range of disciplines representing professionals, community leaders and parents. The Directors serve a two-year term and may not serve more than three terms consecutively. Vacancies on the Board are filled by a vote of the Board from a slate of candidates prepared by the Nominating Committee. The Board of Directors is responsible for carrying out the provisions of the contract with the Sponsor, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Board appoints an Executive Director by majority vote who is the Chief Executive Officer of TechCon Institute and responsible for operating the day-to-day business affairs of the Institute, subject to the supervision of the Board.

The Board of Directors controls the Institute's one instructional/support facility which was staffed by three certified employees and one administrative employee who provided instructional services to 67 students during the period ended June 30, 2005. The Institute contracts with an outside party for Treasurer services.

The primary government of the Institute consists of three funds, several departments and the Board that is not legally separate from the Institute. This includes general operations and student related activities of the Institute. The Institute is associated with the Metropolitan Dayton Education Computer Association (MDECA), which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 14)

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of TechCon Institute have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Institute 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 Institute has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The most significant of the Institute's accounting policies are described below.

A. Basis of Presentation

The Institute's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows provides information about how the Institute finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Institute's basic financial statements are prepared using the accrual basis of accounting.

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 Institute 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Institute must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Institute on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Institute's contract with its Sponsor. The contract between the Institute and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705 except the Institute must annually file a spending plan pursuant to Ohio Revised Code Section 5705.391 with the Ohio Department of Education.

E. Cash

All monies received by the Institute are maintained in a demand deposit account.

F. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the period in which services are consumed.

G. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Institute maintains a capitalization threshold of \$1,000. The Institute does not have any infrastructure. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Machinery and Equipment	4-8 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reflected as "Restricted for Special Purposes" represents state grants.

The Institute applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Vacation and personal leave 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 Institute will compensate the employees for the benefits through paid time off or some other means. The Institute records a liability for accumulated unused vacation and personal leave time when earned for all employees.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the statement of net assets.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Institute, these revenues are payments from the State Foundation Program and miscellaneous operating revenues. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Institute. All revenues and expenses not meeting these definitions are reported as non-operating.

L. Intergovernmental Revenues

The Institute currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Institute also participates in the State EMIS Grant Program and the Community School State Grant Program. Under these programs, the Institute was awarded and received \$3,000 and \$24,833, respectively, during the period ended June 30, 2005.

M. Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS

At June 30, 2005, the book balance of the Institute's deposits was \$140,585 and the bank balance was \$155,309.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Institute's deposits may not be returned to it. The Institute does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$55,309 of the Institute's bank balance of \$155,309 was exposed to custodial credit risk in that it was uninsured and uncollateralized.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts receivable. All receivables are expected to be received within one year.

5. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2005, was as follows:

	<u>Balance 9/01/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/05</u>
Machinery and Equipment	\$0	\$5,320	0	5,320
Less Accumulated Depreciation:				
Machinery and Equipment	0	(180)	0	(180)
Capital Assets, Net	<u>\$0</u>	<u>\$5,140</u>	<u>\$0</u>	<u>\$5,140</u>

6. RISK MANAGEMENT

A. Property and Liability

The Institute 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 contracted personnel; and natural disasters. During the period ended June 30, 2005, the Institute contracted with Indiana Insurance for property insurance and general liability insurance.

B. Workers' Compensation

The Institute pays the State Workers' Compensation System premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

7. PURCHASED SERVICES

For the period ended June 30, 2005, purchased services were as follows:

Professional and Technical Services	\$17,691
Property Services	17,607
Travel and Meetings	7,849
Communications	3,822
Craft and Trade Services	778
Total Purchased Services	<u>\$47,747</u>

8. PERSONNEL AGREEMENT

The Institute entered into a service contract for Treasurer Services. Total payments for the period ended June 30, 2005 were \$10,992.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

9. OPERATING LEASES

The Institute entered into a rental agreement with the Girl Scouts of Buckeye Trails Council for use of two rooms and an auditorium. This agreement was for the period September 1, 2004 through August 31, 2005, and renewable for an additional twelve months. According to the agreement, the rent was \$1,000 per month payable in advance. The lease was cancelled in April 2005. During the period ended June 30, 2005, the Institute made total payments of \$9,000.

The Institute entered into a rental agreement with the Greater Dayton Regional Transit Authority for use of office space. The agreement was for three years beginning June 1, 2005 and ending May 31, 2008. The agreement states that the rent will be \$2,500 per month for the first month and for months 13 through 36. During the first year, the Institute does not have to pay rent, except for the first month, but the Institute must pay \$30,000 in renovation costs to make the space suitable for its use. The costs of these renovations will offset the majority of the first year's rental payments, except for the first month. During the period ended June 30, 2005, the Institute paid \$6,802 in renovation costs. Required future payments according to the agreement are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$30,000
2007	30,000
2008	27,500
	<u>\$87,500</u>

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Institute 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 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, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the period ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Institute was required to contribute at an actuarially determined rate of 14 percent of annual covered payroll. A portion of the Institute's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. 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 Institute's required contribution for pension obligations to SERS for the period ended June 30, 2005 was \$1,264; 46 percent has been contributed.

B. State Teachers Retirement System of Ohio

The Institute 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.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the period ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Institute 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Institute's required contribution for pension obligations to the DB Plan for the period ended June 30, 2005 was \$16,764; 70 percent has been contributed. The Institute did not have any employees who participated in the DC or Combined Plans for the period ended June 30, 2005.

11. POSTEMPLOYMENT BENEFITS

The Institute provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS 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 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, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Institute, this amount equaled \$1,290 for the period ended June 30, 2005.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Institute paid \$410 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, (the latest information available) were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal leave and sick leave benefits are derived from employee contracts. The Administrator, teachers and aides earn five sick days and three personal days during a contract year. The Administrator also earns two weeks of vacation during a contract year. Sick, personal and vacation leave may not be carried over into a succeeding contract year.

B. Insurance Benefits

The Institute provides health and life insurance to all employees through Anthem.

13. SHORT-TERM OBLIGATIONS

During the period ended June 30, 2005, the Institute was approved a line of credit from National City Bank in the amount of \$15,000 for the purpose of making renovations to the space leased from the Regional Transit Authority. The interest rate on withdrawals from the revolving loan is 10 percent. During the period, the Institute drew a total of \$11,802 from the revolving loan. The Institute repaid \$5,000 in principal along with \$204 in interest on the loan during the period ended June 30, 2005. The outstanding balance on the loan at June 30, 2005 was \$6,802.

**TECHCON INSTITUTE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

14. JOINTLY GOVERNED ORGANIZATION

The Institute is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Institute made payments of \$2,094 to MDECA during the period ended June 30, 2005. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

15. CONTINGENCIES

A. Grants

The Institute received financial assistance from 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Institute. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Institute at June 30, 2005.

B. State Funding

The Ohio Department of Education 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. One review was conducted during the period ended June 30, 2005.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e. Charter) School's program violates the State Constitution and State laws. On April 21, 2003, the court dismissed the counts containing constitutional claim and stayed the other courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on TechCon Institute is not presently determinable.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

TechCon Institute Community School
Montgomery County
2075 Shiloh Springs Road
P.O. Box 60592
Dayton, Ohio 45406

To the Board of Directors:

We have audited the financial statements of the business-type activities of TechCon Institute Community School, Montgomery County, (the Institute), as of and for the period ended June 30, 2005, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated December 6, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Institute's management dated December 6, 2005, we reported matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Institute's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the Institute's management dated December 6, 2005, we reported other matters related to noncompliance we deemed immaterial.

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TechCon Institute Community School
Montgomery County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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We intend this report solely for the information and use of the management and Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 6, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**TECHCON INSTITUTE COMMUNITY SCHOOL
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 30, 2005**