TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Dave Yost • Auditor of State

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Townsend Community School
Erie County
209 Lowell Street
Castalia, Ohio 44824-9332

To the Board of Directors:

Report on the Financial Statement

We have audited the accompanying financial statement of Townsend Community School, Erie County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for preparing and fairly presenting this financial statement in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on this financial statement based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statement is free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statement, the School prepared this financial statement using the cash accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statement does not present fairly the financial position, results of operations, and cash flows, where applicable, of Townsend Community School, Erie County, Ohio as of and for the year ended June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The School also has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2015, on our consideration of the School'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost
Auditor of State

Columbus, Ohio

January 12, 2015

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGE IN FUND BALANCE (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating Cash Receipts	
Foundation Payments	$3,036,858
Operating Cash Disbursements	
Salaries	853,952
Employee Fringe Benefits	475,679
Purchased Services	833,593
Supplies and Materials	580,290
Other	38,345
Capital Outlay	94,078
Total Operating Cash Disbursements	2,875,937
Operating Income	160,921
Non-Operating Receipts	
Intergovernmental	266,858
Earnings on Investments	1,691
Other Non-Operating Receipts	5,630
Total Non-Operating Receipts	274,179
Net Change in Fund Cash Balance	435,100
Fund Cash Balance, July 1	1,426,918
Fund Cash Balance, June 30	$1,862,018

The notes to the financial statement are an integral part of this statement

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1. DESCRIPTION OF THE SCHOOL

Townsend Community School, Erie County, Ohio (the "School") is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under contract with Margaretta Local School District (the Sponsor) for the period of September 1, 2011 through June 30, 2014. The School operates under a self-appointing five-member Board of Directors (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has two instructional/support facilities staffed by one director/superintendent and sixteen certified teaching personnel who provide services to an enrollment of 426 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the School chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

A. Reporting Entity

The School's reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 39, "Determining whether Certain Organizations Are Component Units", and GASB Statement No. 61, "The Financial Reporting Entity Omnibus and Amendment of GASB Statements No. 14 and No. 34". The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School. For the School, this includes general operations of the School. Component units are legally separate organizations for which the School is financially accountable. The School is financially accountable for an organization if the School appoints a voting majority of the organization's governing board and (1) the School is able to significantly influence the programs or services performed or provided by the organization; or (2) the School is legally entitled to or can otherwise access the organization's resources; the School is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the School is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School in that the School approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statement of the reporting entity includes only those of the School (the primary government). The School has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organization is described due to its relationship to the School:

Public Entity Risk Pool

Schools of Ohio Risk Sharing Authority

The School participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officer.

B. Fund Accounting

The School uses fund accounting to segregate cash which is restricted to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School functions or activities.

For financial statement presentation purposes, the various funds of the School are grouped into a single proprietary operating fund.

A proprietary fund is used to account for the School's ongoing activities which are similar to those found in the private sector.

C. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the School chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in this financial statement.

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 Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School 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 Chapter 5705. The School is required to file a five year forecast each fiscal year under Ohio Revised Code Section 5705.391.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The School reported no restricted assets.

F. Inventory and Prepaid Items

The School reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets.

G. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School's cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The School recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Operating and Non-Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly by the School's primary mission as well as other charges for services and other operating revenues. For the School, operating receipts include foundation payments received from the State of Ohio. Operating disbursements are necessary costs incurred to support the School's primary mission.

Non-operating receipts are those that are not generated directly by the School's primary mission. Grants comprise the majority of the non-operating receipts of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. State Foundation Program Receipts

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized when received. Foundation revenue received by the School during fiscal year 2014 was $3,036,858.

3. COMPLIANCE

Ohio Administrative Code Section 117-2-03 (B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on the regulatory basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statement omits assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

4. DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution.

As of June 30, 2014, $1,725,695 of the School's bank balance of $1,975,695 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name.

5. RISK MANAGEMENT

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.

The School maintains comprehensive insurance coverage through SORSA, an insurance purchasing pool (see Note 2.A.) for liability, real property, building contents and equipment. In addition, real property contents are 90% coinsured. The following is a description of the School's insurance coverage:

Coverage	Limits of Coverage
General Liability:	
Each Occurrence	$2,000,000
Aggregate	4,000,000
Umbrella	13,000,000
Building Contents	87,074
Crime	$100,000

5. RISK MANAGEMENT (Continued)

Settled claims have not exceeded the commercial coverage in the past three years. The School has reduced the limits of coverage since the prior year.

6. PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were $14,751, $16,912 and $5,200, respectively; 59 percent has been contributed for fiscal year 2014, while 100 percent has been contributed for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 website at www.strsoh.org, under *"Publications".*

6. 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 a 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 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 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 - For fiscal year 2014, plan members were required to contribute 11 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 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were $96,376, $28,989 and $11,800, respectively; 22 percent has been contributed for fiscal year 2014, while 100 percent has been contributed for fiscal years 2013 and 2012.

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 monthly premium for calendar year 2013 (the most recent information available) was $104.90 for most participants, but could be as high as $335.70 per month depending on their income and the SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was $20,250.

Active members do not contribute to the postemployment benefit plans. The 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 School's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were $158, $207 and $204, respectively; 59 percent has been contributed for fiscal year 2014, while 100 percent has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were $856, $955 and $279, respectively; 59 percent has been contributed for fiscal year 2014, while 100 percent has been contributed for fiscal years 2013 and 2012.

7. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description - The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. 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, under *"Publications"* or by calling (888) 227-7877.

Funding Policy - Ohio law 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 pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were $7,414, $2,230 and $843, respectively; 22 percent has been contributed for fiscal year 2014, while 100 percent has been contributed for fiscal years 2013 and 2012.

8. OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2014, other purchased service expenses for services rendered by various vendors were as follows:

Professional & Technical Services	$510,004
Payment to Sponsor	65,764
Property Services	130,662
Travel Mileage/Meeting Expense	77,406
Communications	13,843
Tuition	35,914
Total Purchased Services	$833,593

9. SPONSOR AGREEMENT

Margaretta Local School District, Erie County, Ohio (the Sponsor) sponsored the School in fiscal year 2014. The Sponsor receives 3% of the State Aide received by the School as set forth in the Shared Services Agreement. The School also entered into a lease agreement with the Sponsor for areas that housed the staff of the School, as well as various shared professional and technical services with the Sponsor. The agreement generated approximately $400,000 in revenue to the Sponsor.

10. OPERATING LEASE – LESSEE DISCLOSURE

The School is the lessee of property located in Castalia, Ohio. The lease is between Margaretta Local School District and the Board of Directors. The lease is $7,083 per month, payable in monthly installments on or before the last business day of the month. This lease agreement commenced on August 1, 2012, was amended August 1, 2013, and expires on July 31, 2014.

11. CONTINGENCIES

A. Grants

The School 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. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2014, if applicable, cannot be determined at this time.

B. Litigation

The School is not party to legal proceedings that would have a material effect on the financial condition of the School.

12. SUBSEQUENT EVENTS

The School began construction of a new facility in October, 2014. This construction project will be funded from cash reserves as well as a line of credit to cover any unexpected costs.

The School signed a Settlement Agreement, Release, and Waiver (the Settlement) with the Ohio Department of Education (ODE) on November 14, 2014 to end the dispute of claims related to the 2013 full-time equivalency review conducted by the ODE. As part of the Settlement, the ODE shall recover from the School 35 percent of the total state foundation from fiscal year 2013. The recovery shall be made by sixty deductions from monthly school foundation payments to the School in the amount of $12,801.81 beginning in July, 2015.

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

Townsend Community School
Erie County
209 Lowell Street
Castalia, Ohio 44824-9332

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statement of Townsend Community School, Erie County, Ohio (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated January 12, 2015, wherein we issued an adverse opinion on the School's financial statement because the School prepared its financial statement using accounting practices the Auditor of State prescribes or permits for governmental entities not required to report in accordance with GAAP rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statement, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statement. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statement is 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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

January 12, 2015

SCHEDULE OF FINDINGS
JUNE 30, 2014

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2014-001

Noncompliance Citation / Material Weakness

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Admin. Code § 117-2-03 (B), which further clarifies the requirements of Ohio Revised Code § 117.38, requires the School to file annual financial reports prepared using generally accepted accounting principles (GAAP).

For fiscal year 2014 the School prepared its financial statements in accordance with the regulatory basis of accounting prescribed or permitted by the Auditor of State for governments not required to report in accordance with GAAP. This presentation differs from accounting principles generally accepted in the United States of America. The accompanying financial statement and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

We recommend the School take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles.

Officials' Response:

The School is aware of GAAP reporting requirements, however the School believes reporting on a cash basis is more cost efficient.

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TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2013-001	Ohio Admin. Code §117-2-03(B) for reporting on a basis other than generally accepted accounting principles.	No	Not corrected. Repeated as finding number 2014-001 in this report.

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Dave Yost • Auditor of State

TOWNSEND COMMUNITY SCHOOL

ERIE 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
JANUARY 27, 2015