TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Townsend Community School
Erie County
207 Lowell Street
Castalia, Ohio 44824

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, 2015, 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.

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www.ohioauditor.gov

Basis for Adverse Opinion

As described in Note 2 of the financial statement, the School prepared this financial statement using the 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 this statement 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, 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2016, 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

April 11, 2016

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGE IN FUND BALANCE (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Operating Cash Receipts	
Foundation Payments	$4,497,247
Operating Cash Disbursements	
Salaries	1,373,486
Employee Fringe Benefits	555,741
Purchased Services	813,267
Supplies and Materials	803,567
Other	104,916
Capital Outlay	1,939,722
Total Operating Cash Disbursements	5,590,699
Operating Loss	(1,093,452)
Non-Operating Receipts	
Intergovernmental	370,862
Earnings on Investments	3,140
Other Non-Operating Receipts	29,582
Total Non-Operating Receipts	403,584
Net Change in Fund Cash Balance	(689,868)
Fund Cash Balance, July 1	1,862,018
Fund Cash Balance, June 30	$1,172,150

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

NOTE 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) in previous audits. The current contract is effective for the period of July 1, 2013 through June 30, 2016. 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, two principals, sixteen certified teaching personnel, two support staff, four enrollment attendants, one psychologist, two treasurer's office staff, and one technology support staff who provide services to an enrollment of 622 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Admin. 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 statement 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.

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 Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the School's property and persons. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

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 Admin. 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 statement 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.

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 Rev. 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 Rev. Code Chapter 5705. The School is required to file a five year forecast each fiscal year under Ohio Rev. 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 consist of 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.

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 2015 was $4,497,247.

NOTE 3 – COMPLIANCE

Ohio Admin. 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 statement 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.

NOTE 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, 2015, $275,935 of the School's bank balance of $1,276,592 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.

NOTE 5 – RISK MANAGEMENT

The School is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 110 members. SORSA is a joint self-insurance pool. SORSA assumes the risk of loss up to the limits of the School's policy. SORSA covers the following risks, as applicable:

- Property
- Electronic Data Processing
- Boiler and Machinery
- Crime
- General Liability
- Automobile Liability and Physical Damage
- School Board Errors and Omissions.

The School contributes to the funding, operating and maintaining of the SORSA joint self-insurance pool. The School's contributions cover deductible losses, loss fund contribution, insurance costs, and administration cost.

The School paid $7,027 in premiums to the pool for fiscal year 2015 coverage. Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

SORSA financial statements are available by contacting SORSA at
Schools of Ohio Risk Sharing Authority, Inc.
8050 North High Street, Suite 160
Columbus, Ohio 43235

NOTE 6 – PENSION PLANS

A. School Employees Retirement System

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $45,052 for fiscal year 2015.

B. State Teachers Retirement System

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code

Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $144,433 for fiscal year 2015.

NOTE 7 – POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School had no surcharge obligation.

The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $2,803, $158, and $207, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

Plan Description – The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. 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 which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care 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 fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $7,414, and $2,230 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 8 – OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2015, other purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	$310,262
Payment to Sponsor	181,749
Property Services	112,303
Travel Mileage/Meeting Expense	135,195
Communications	16,220
Tuition	54,538
Other	3,000
Total Purchased Services	$813,267

NOTE 9 – SPONSOR AGREEMENT

Margaretta Local School District, Erie County, Ohio (the Sponsor) sponsored the School in fiscal year 2015. 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 $356,000 in revenue to the Sponsor.

NOTE 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 $9,583 per month, payable in monthly installments on or before the last business day of the month, and includes a clause for maintenance services to be provided by the lessor to the lessee. This lease agreement commenced on August 1, 2014 and expires on July 31, 2015.

NOTE 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, 2015, 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.

C. Foundation Funding

Community School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this could result in 'material contingencies of the School.'

NOTE 12 – SUBSEQUENT EVENTS

Townsend Community School began construction of a $1.7 million addition to the new facility in October, 2015. This construction project will be funded through a lease-purchase agreement with Margaretta Local School District. The principal amount of the lease-purchase agreement is $1,700,00. The term of the lease is five years through December 1, 2020. There is a call period whereby the balance of the lease can be paid in full no sooner than December 1, 2018. The Ground Lease between Margaretta Local School District and Townsend Community School is being used to collateralize the lease between Margaretta Local School District and First Merit Bank. The Ground Lease has been amended to include the requirement that Townsend Community School will pay back the principal and interest plus a three precent service charge on a monthly basis beginning February 1, 2016.

Dave Yost • Auditor of State

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
207 Lowell Street
Castalia, Ohio 44824

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, 2015, and the related notes to the financial statement and have issued our report thereon dated April 11, 2016, 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 using 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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

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www.ohioauditor.gov

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 2015-001.

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

April 11, 2016

SCHOOL OF FINDINGS

SCHEDULE OF FINDINGS
JUNE 30, 2015

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

FINDING NUMBER 2015-001

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 Rev. Code § 117.38, requires the School to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2015, the School prepared its financial statement 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 generally accepted accounting principles. 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.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2014-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for reporting on basis other than generally accepted accounting principles.	No	Not corrected. Repeated as finding number 2015-001 in this report.

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
MAY 3, 2016

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