TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

OHIO AUDITOR OF STATE
KEITH FABER

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY
JUNE 30, 2017

TABLE OF CONTENTS

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Townsend Community School, Erie County, Ohio (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to opine on these financial statements 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 statements are 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 statements 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 such 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Townsend Community School, Erie County, Ohio as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2017, the School has elected to change its financial statement presentation to follow accounting principles generally accepted in the United States of America. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report date March 5, 2019, 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.

Keith Faber
Auditor of State

Columbus, Ohio

March 5, 2019

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The management discussion and analysis of the Townsend Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- In 2017, the School prepared, for the first time, financial statements in according to accounting principles generally accepted in the United States of America (GAAP). Restatements necessary to implement this change in accounting principle are presented in Note 3 to the basic financial statements.

- In total, net position was a deficit balance of $2,454,181 at June 30, 2017.

- The School had operating revenues of $4,819,179, operating expenses of $7,274,843, non-operating revenues of $519,543, and $70,633 in interest and fiscal charges for fiscal year 2017. Total change in net position for the fiscal year was a decrease of $2,006,754 from June 30, 2016 (as restated – see Note 3)

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the School's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations.

The table below provides a summary of the School's net position at June 30, 2017. This is the School's first year for financial statements using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

Net Position

	2017
Assets	
Current and other assets	$ 1,089,247
Capital assets, net	5,114,280
Total assets	6,203,527
Deferred outflows of resources	1,785,653
Liabilities	
Current liabilities	1,489,176
Long-term liabilities:	
Net pension liability	5,173,819
Other amounts	3,780,366
Total liabilities	10,443,361
Net Position	
Investment in capital assets	3,928,863
Unrestricted (deficit)	(6,383,044)
Total net position (deficit)	$ (2,454,181)

Net Pension Liability

The School has adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension asset/liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. In addition, the School reports a net pension asset/liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Analysis of Net Position

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School's liabilities exceeded assets and deferred outflows of resources by $2,454,181.

At year-end, capital assets represented 82.44% of total assets. Capital assets include a building and equipment. Net position invested in capital assets at June 30, 2017, was $3,928,863. These capital assets are used to provide services to the students and are not available for future spending. Although the School's investment in capital assets are reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

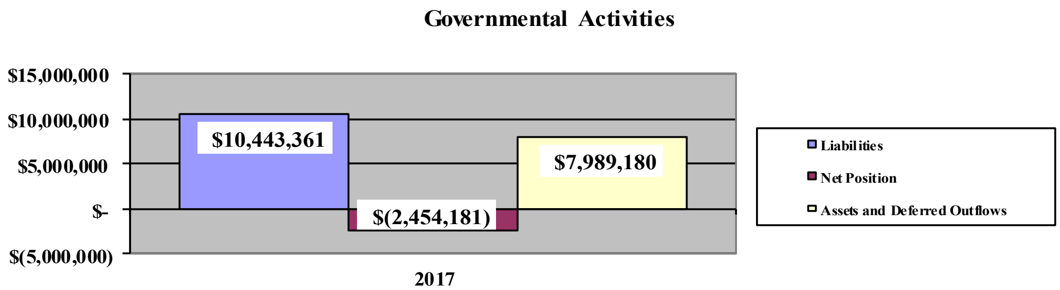
The School has reported long-term liabilities for overpayments of Foundation revenue from the State of Ohio in fiscal year 2017 and in prior fiscal years and for obligations under a ground lease agreement with Margaretta Local School District. The amounts due on these obligations in the subsequent fiscal year are reported as current liabilities with the remainder being reported as long-term liabilities. See Note 7 to the basic financial statements for more information.
The School's net pension liability and related deferred outflows of resources related to pensions are factors that are outside of the control of the School. The School contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to School employees, not the School.

The remaining balance of unrestricted net position is a deficit of $6,383,044.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The graph below illustrates the School's assets, deferred outflows of resources, liabilities and net position at June 30, 2017.



The table below shows the changes in net position for 2017. This is the School's first year for financial statements using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

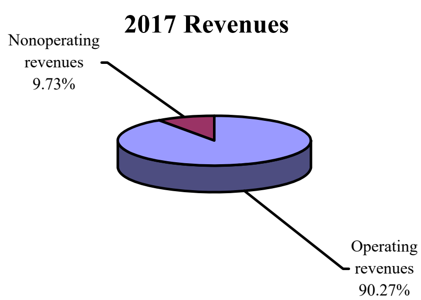
Change in Net Position

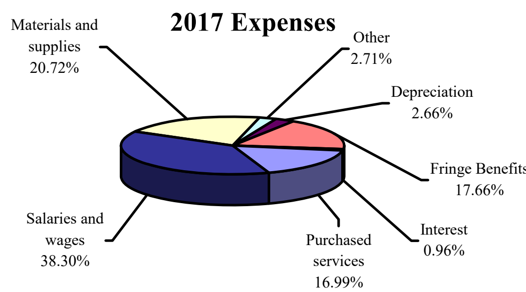
	2017
Operating Revenues:	
State foundation	$ 4,819,179
Operating Expenses:	
Salaries and wages	2,812,757
Fringe benefits	1,297,522
Purchased services	1,248,348
Materials and supplies	1,522,010
Other	198,918
Depreciation	195,288
Total operating expenses	7,274,843
Non-operating Revenues (Expenses):	
Grants and subsidies	506,879
Interest revenue	4,653
Miscellaneous	8,011
Interest and fiscal charges	(70,633)
Total non-operating revenues (expenses)	448,910
Change in net position	(2,006,754)
Net position (deficit) at beginning of year (restated)	(447,427)
Net position (deficit) at end of year	$ (2,454,181)

The School's foundation revenue was $4,819,179 in fiscal year 2017. The School also received $506,879 in federal grants and earned interest revenues of $4,653. Miscellaneous receipts, consisting of various refunds and rebates, totaled $8,011.

The School had total operating expenses of $7,274,843. Payments for staff wages and benefits totaled $4,110,279, which includes $608,688 of pension expense required by GASB 68. Purchased services were $1,248,348 and consist primarily of payment made to the Sponsor for services. Materials and supplies expense totaled $1,522,010 and other operating expenses were $198,918. Depreciation expense on capital assets was $195,288 while interest and fiscal charges related to the Schools obligation under a ground lease with the Sponsor totaled $70,633.

The charts below illustrate the revenues and expenses for the School during fiscal 2017. This is the School's first year for financial statements using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.





Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the School had $5,114,280 (net of accumulated depreciation) invested in buildings, furniture, fixtures and equipment. See Note 8 to the basic financial statements for more detail on capital assets.

Debt Administration

The School had $1,185,417 in a ground lease obligation to its Sponsor at June 30, 2017. Of this total, $333,750 is due in one year and $851,667 is due in more than one year. See Note 7 to the basic financial statements for more information.

Current Financial Related Activities

The School is sponsored by Margaretta Local School District. The School is reliant upon State Foundation monies and State and Federal Grants to offer quality educational services to students. In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the Government's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Mike Limberios, Treasurer, Townsend Community School, 207 Lowell Street, Castalia, Ohio 44824.

This page intentionally left blank.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:		
Current assets:		
Cash and cash equivalents	$	928,016
Receivables:		
Intergovernmental		113,174
Prepayments		38,817
Materials and supplies inventory		9,240
Total current assets		1,089,247
Non-current assets:		
Depreciable capital assets, net		5,114,280
Total assets		6,203,527
Deferred outflows of resources:		
STRS		1,302,016
SERS		483,637
Total deferred outflows of resources		1,785,653
Liabilities:		
Current liabilities:		
Accounts payable		76,992
Accrued wages and benefits		429,521
Compensated absences		84,364
Intergovernmental payable		564,549
Ground lease obligation		333,750
Total current liabilities		1,489,176
Non-current liabilities:		
Intergovernmental payable		2,928,699
Ground lease obligation		851,667
Net pension liability		5,173,819
Total non-current liabilities		8,954,185
Total liabilities		10,443,361
Net position:		
Investment in capital assets		3,928,863
Unrestricted (deficit)		(6,383,044)
Total net position (deficit)	$	(2,454,181)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation payments.	$ 4,819,179
Operating expenses:	
Salaries and wages.	2,812,757
Fringe benefits.	1,297,522
Purchased services.	1,248,348
Materials and supplies	1,522,010
Other.	198,918
Depreciation	195,288
Total operating expenses.	7,274,843
Operating loss.	(2,455,664)
Non-operating revenues (expenses):	
Federal and state grants.	506,879
Interest revenue	4,653
Other non-operating revenues.	8,011
Interest and fiscal charges	(70,633)
Total non-operating revenues (expenses). . . .	448,910
Change in net position	(2,006,754)
Net position (deficit) at beginning of year (restated)	(447,427)
Net position (deficit) at end of year	$ (2,454,181)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from state foundation	$ 7,641,234
Cash payments for salaries and wages.	(2,766,396)
Cash payments for fringe benefits	(1,074,087)
Cash payments for purchased services	(1,340,489)
Cash payments for materials and supplies	(1,495,492)
Cash payments for other expenses	(209,238)
Net cash provided by operating activities	755,532
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	489,436
Cash received from miscellaneous receipts	8,011
Net cash provided by noncapital financing activities.	497,447
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(415,045)
Principal retirement on ground lease obligation	(352,083)
Interest and fiscal charges	(70,633)
Net cash (used in) capital and related financing activities.	(837,761)
Cash flows from investing activities:	
Interest received	4,653
Net cash provided by investing activities	4,653
Net increase in cash and cash equivalents	419,871
Cash and cash equivalents at beginning of year	508,145
Cash and cash equivalents at end of year	$ 928,016
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (2,455,664)
Adjustments:	
Depreciation	195,288
Changes in assets and liabilities:	
(Increase) in materials and supplies inventory	(9,240)
(Increase) in intergovernmental receivable	(21,012)
(Increase) in prepayments	(35,424)
Increase in accounts payable.	19,718
Increase in accrued wages and benefits	41,033
Increase in intergovernmental payable	2,782,820
Increase in compensated absences payable	15,467
Increase in net pension liability	1,842,523
(Increase) in deferred outflows - pension	(1,404,589)
(Decrease) in deferred inflows - pension	(215,388)
Net cash provided by operating activities	$ 755,532

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE ACADEMY

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, 2016 through June 30, 2019. 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 44 certified staff and 14 non-certified staff who provide services to an enrollment of 873 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted 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 School's significant accounting policies are described below.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Public Entity Risk Pool

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. Basis of Presentation

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

C. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, see Note 9 for deferred outflows of resources related to the School's net pension liability.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, see Note 9 for deferred inflows of resources related to the School's net pension liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. 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, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

F. Cash

All monies received by the School are deposited into demand deposit accounts.

G. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Intergovernmental Revenue

The School currently participates in the State Foundation Program, the IDEA B grant, and the Title I grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2017 school year excluding federal and State grants totaled $4,819,179.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State and federal grants revenue for the fiscal year 2017 received was $506,879.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Estimates

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

J. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. The School does not have a policy regarding the payment of unused sick leave for termination (severance) benefits; therefore, a liability is not accrued for unused sick leave at fiscal year-end. The School does have a policy that allows employees to carry over or be compensated for unused vacation leave at fiscal year-end; therefore, a liability has been recorded for unused vacation leave at fiscal year-end.

See Note 11 for further detail on the compensated absences policies.

K. 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 acquisition values on the date donated. The School maintains a capitalization threshold of $5,000. The School does not have any infrastructure. Improvements are capitalized. The costs 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, except land, 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:

Description	Estimated Lives
Buildings	40 years
Equipment	5 - 20 years

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the financial statements using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2017, the School has presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In conjunction with this presentation, the School has converted its cash-basis activities to the accrual basis of accounting.

The restatement required to the June 30, 2016 net cash position to conform with GAAP and the accrual basis of accounting follows:

Net cash position, June 30, 2016	$ 508,145
Accrual basis adjustments:	
Intergovernmental receivables	74,719
Prepayments	3,393
Accounts payable	(57,274)
Accrued wages and benefits payable	(388,488)
Intergovernmental payables	(710,428)
Capital assets, net	4,894,523
Deferred outflows - pension	381,064
Deferred inflows - pension	(215,388)
Compensated absences	(68,897)
Ground lease obligation	(1,537,500)
Net pension liability	(3,331,296)
Restated net position (deficit), July 1, 2016	$ (447,427)

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of the School's deposits was $928,016. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, $854,120 of the School's bank balance of $1,104,120 was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017 totaled $113,174. These receivables consisted of intergovernmental grants and entitlements and amounts due from the School's Sponsor related to overpayments of State Foundation. These receivables are expected to be collected in the subsequent year.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2017, purchased services expenses were as follows:

Professional services	$ 715,726
Property rental and services	79,273
Travel, mileage and meetings	252,270
Communications	56,448
Utilities	42,617
Tuition and similar payments	101,829
Pupil transportation services	185
Total purchased services	$ 1,248,348

NOTE 7 - LONG-TERM OBLIGATIONS

The School's long-term obligations during the year consist of the following:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due in One Year
Net pension liability:					
STRS	$ 2,707,483	$ 1,306,628	$ -	$ 4,014,111	$ -
SERS	623,813	535,895	-	1,159,708	-
Total net pension liability	3,331,296	1,842,523	-	5,173,819	-
Ground lease obligation	1,537,500	-	(352,083)	1,185,417	333,750
Intergovernmental payable	614,448	2,955,805	(153,612)	3,416,641	487,942
Total	$ 5,483,244	$ 4,798,328	$ (505,695)	$ 9,775,877	$ 821,692

Net Pension Liability:
See Note 9 for information on the School's net pension liability.

Ground Lease Obligation:
On January 29, 2016, the Margaretta Local School District ("Margaretta LSD") and the School entered into an agreement to amend the Ground Lease dated June 30, 2014. Under the terms of amended Ground Lease, the School will pay Margaretta LSD lease payments equal to the principal and interest requirements on the $1.7 million lease-purchase obligation entered into between Margaretta LSD and FirstMerit Bank in February 2016. 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 proceeds of the lease-purchase obligation were used to finance improvements to the Townsend Community School Learning Center, which include the addition of an approximately 28,500 square foot facility. 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. In addition to the lease payments, the School is required to pay Margaretta LSD a finance charge equal to 3% on all payments required under the agreement. These finance charges are used by the Margaretta LSD to mitigate risk and administer the lease-purchase obligation with FirstMerit Bank. The following is the School's future debt service requirements under the amended ground lease obligation:

	Ground Lease Obligation		
Fiscal Year Ending,	Principal	Interest and Fiscal Charges	Total
2018	$ 333,750	$ 50,915	$ 384,665
2019	345,833	39,762	385,595
2020	355,834	28,129	383,963
2021	150,000	9,676	159,676
Total	$ 1,185,417	$ 128,482	$ 1,313,899

NOTE 7 - LONG-TERM OBLIGATIONS

Intergovernmental payable
As a result of FTE Reviews performed by ODE (see Note 13.B), the School has reported a $3,416,641 liability at June 30, 2017 due to overpayments of State Foundation made in the current fiscal year and in prior fiscal years. The repayments are being made over 60-month periods. The following is a schedule of the future repayments which are being made via deductions from the School's Foundation revenue in fiscal years 2018 through 2023:

Fiscal Year	Amount
2018	$ 487,942
2019	782,767
2020	782,766
2021	629,153
2022	629,153
2023	104,860
	$ 3,416,641

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets, being depreciated:				
Buildings	4,644,066	300,000	-	4,944,066
Equipment	340,474	115,045	-	455,519
Depreciable capital assets	4,984,540	415,045	-	5,399,585
Less: accumulated depreciation:				
Buildings	(58,051)	(119,852)	-	(177,903)
Equipment	(31,966)	(75,436)	-	(107,402)
Total accumulated depreciation	(90,017)	(195,288)	-	(285,305)
Governmental activities capital assets, net	$ 4,894,523	$ 219,757	$ -	$ 5,114,280

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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 years 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, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $86,464 for fiscal year 2017. Of this amount, $7,863 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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.

NOTE 9 - 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. 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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was $299,678 for fiscal year 2017. Of this amount, $47,126 is reported as intergovernmental payable.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.01093240%	0.00976560%	
Proportion of the net pension liability current measurement date	0.01584500%	0.01199208%	
Change in proportionate share	0.00491260%	0.00222648%	
Proportionate share of the net pension liability	$ 1,159,708	$ 4,014,111	$ 5,173,819
Pension expense	$ 196,990	$ 411,698	$ 608,688

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 15,641	$ 162,190	$ 177,831
Net difference between projected and actual earnings on pension plan investments	95,660	333,280	428,940
Changes of assumptions	77,417	-	77,417
Difference between School contributions and proportionate share of contributions/ change in proportionate share	208,455	506,868	715,323
School contributions subsequent to the measurement date	86,464	299,678	386,142
Total deferred outflows of resources	$ 483,637	$ 1,302,016	$ 1,785,653

$386,142 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	$ 123,862	$ 205,164	$ 329,026
2019	123,791	205,165	328,956
2020	122,020	333,054	455,074
2021	27,500	258,955	286,455
Total	$ 397,173	$ 1,002,338	$ 1,399,511

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$ 1,535,381	$ 1,159,708	$ 845,254

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$ 5,334,427	$ 4,014,111	$ 2,900,346

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School's NPL is expected to be significant.

NOTE 10 - POSTEMPLOYMENT 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 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, 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 2017, none of the employer contribution 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 2017, this amount was $23,500. 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 2017, the School's surcharge obligation was $171.

The School's contributions for health care (including surcharge) for fiscal years ended June 30, 2017 was $171. The fiscal year 2017 amount has been reported as intergovernmental payable.

NOTE 10 - POSTEMPLOYMENT BENEFITS – (Continued)

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 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 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. None of the School's contributions were allocated to fund health care for the fiscal year ended June 30, 2017.

NOTE 11 - COMPENSATED ABSENCES

Employees accumulate sick leave at a rate of 15 days per year. Unused sick leave may accumulate up to 250 days. Some employees accumulate vacation leave at a rate of up to 20 days per year. Unused vacation leave may accumulate up to a maximum of 60 days. A liability for unused vacation leave in the amount of $84,364 at June 30 is recorded on the statement of net position.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

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.

NOTE 12 - RISK MANAGEMENT - (Continued)

The School paid $13,003 in premiums to the pool for fiscal year 2017 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

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

NOTE 13 - 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. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2017, if applicable, cannot be determined at this time.

B. Foundation Funding

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017.

Additional ODE adjustments for fiscal year 2017 have been finalized. As a result, the impact of the FTE adjustments on the fiscal year 2017 financial statements is an intergovernmental payable in the amount of $3,416,641 due to an agreed upon calculation with ODE.

NOTE 13 - CONTINGENCIES - (Continued)

In addition, the School's contract with the Margaretta Local School District require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are finalized. The amount will be repaid through monthly State Foundation Program deductions.

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 14 - SPONSOR AGREEMENT

Margaretta Local School District, Erie County, Ohio (the "Sponsor") sponsored the School in fiscal year 2017. The Sponsor receives 3% of the State Aide received by the School as set forth in the Shared Services Agreement. The School has also entered into a ground lease agreement and other lease agreements with the Sponsor for areas that housed the staff of the School. In addition, the School has entered into agreements with the Sponsor for shared professional and technical services.

NOTE 15 - OPERATING LEASE - LESSEE DISCLOSURE

The School is the lessee of property located in Castalia, Ohio. The lease is between the Sponsor and the School. The lease is $1,500 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 July 1, 2016 and expired on June 30, 2017.

NOTE 16 - SIGNIFICANT SUBSEQUENT EVENT

In July 2017, the School entered into an operating lease agreement with the Sponsor for the former bus garage building and the fitness center located at 209 Lowell Street, Castalia, Ohio, together with the fixtures and other improvements located thereon. The lease commences on August 1, 2017 and end on July 31, 2018. Under the terms of the lease agreement, the School will pay the Sponsor rent payments of $24,000 per year and building and grounds maintenance costs of $20,000 per year.

The Ohio Department of Education has released the final full-time equivalency (FTE) calculations for fiscal year 2018. The School will repay $2,274,106 through monthly State Foundation Program deductions based on a settlement agreement with ODE.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS (1)

	2017	2016
School's proportion of the net pension liability	0.01584500%	0.01093240%
School's proportionate share of the net pension liability	$ 1,159,708	$ 623,813
School's covered payroll	$ 492,086	$ 363,088
School's proportionate share of the net pension liability as a percentage of its covered payroll	235.67%	171.81%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%

Note: Information prior to 2016 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Amounts presented for each fiscal year were determined as of the School's measurement date which is the prior year-end.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS (1)

	2017	2016
School's proportion of the net pension liability	0.01199208%	0.00976560%
School's proportionate share of the net pension liability	$ 4,014,111	$ 2,707,483
School's covered payroll	$ 1,276,429	$ 1,031,657
School's proportionate share of the net pension liability as a percentage of its covered payroll	314.48%	262.44%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%

Note: Information prior to 2016 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Amounts presented for each fiscal year were determined as of the School's measurement date which is the prior year-end.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

Contractually required contribution	2017	2016	2015
Contributions in relation to the contractually required contribution	$ 86,464	$ 68,892	$ 47,855
Contribution deficiency (excess)	(86,464)	(68,892)	(47,855)
School's covered payroll	$ -	$ -	$ -
Contributions as a percentage of covered payroll	$ 617,600	$ 492,086	$ 363,088
	14.00%	14.00%	13.18%

Note: Information prior to 2015 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	2017	2016	2015
Contractually required contribution	$ 299,678	$ 178,700	$ 144,432
Contributions in relation to the contractually required contribution	(299,678)	(178,700)	(144,432)
Contribution deficiency (excess)	$ -	$ -	$ -
School's covered payroll	$ 2,140,557	$ 1,276,429	$ 1,031,657
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%

Note: Information prior to 2015 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2016-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2016-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2016-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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 statements of the business-type activities of Townsend Community School, Erie County, Ohio (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 5, 2019 wherein we noted the School changed its financial statement presentation to follow 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 statements, 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 statements. 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 2017-002 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School'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, 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 2017-001.

School's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the School's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 report is not suitable for any other purpose.

Keith Faber
Auditor of State

Columbus, Ohio

March 5, 2019

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

FINDING NUMBER 2017-001

Noncompliance

Classroom-based community schools have a building / facility that students must attend the entire school day. These are similar to a traditional school district. The Ohio Department of Education (ODE) has implemented the definition from **34 C.F.R. § 222.176 Subpart L** which defines a school facility as "a building used to provide free public education, including instructional, resource, food service, and general or administrative support areas, so long as they are a part of the facility." **Ohio Revised Code § 3318.01** defines "classroom facilities" as rooms in which pupils regularly assemble in public school buildings to receive instruction and education and such facilities and building improvements for the operation and use of such rooms as may be needed in order to provide a complete educational program, and may include space within which a child care facility or a community resource center is housed. ODE has implemented these definitions within the **Office Quality School Choice Multiple Facilities FAQ**.

Ohio Rev. Code § 3302.41(A) permits any local, city, exempted village, or joint vocational school district, community school established under Chapter 3314 of the Revised Code, STEM school established under Chapter 3326 of the Revised Code, college-preparatory boarding school established under Chapter 3328 of the Revised Code, or chartered nonpublic school to operate all or part of a school using a blended learning model. **Ohio Rev. Code § 3302.41(C)** specifies that an internet- or computer-based community school, as defined in section 3314.02 of the Revised Code, is *not* an authorized blended learning school. Thus, **Ohio Rev. Code § 3302.41(A) &(C)** permit only classroom-based community schools that meet certain statutory requirements to operate all or part of the school using one or more blended learning models.

Ohio Rev. Code § 3301.079(K)(1), emphasis added, defines "Blended learning" as the delivery of instruction in a *combination* of time in a supervised physical location away from home *and* online delivery whereby the student has some element of control over time, place, path, or pace of learning." Community schools using blended learning (or ceasing to operate using blended learning) must notify the Ohio Department of Education (ODE) of such by July 1st of the school year for which the change is effective, pursuant to **Ohio Rev. Code § 3302.41(A)**.

Ohio Rev. Code § 3314.03(A)(29) requires community schools offering blended learning opportunities to include the following in their sponsor agreement:

- An indication of what blended learning model(s) will be used,
- A description of how student instructional needs will be determined and documented,
- The method used to determine competency, granting credit, and promoting students to a higher grade level,
- The school's attendance requirements, including how the school will document participation in learning opportunities,
- A statement of how student progress will be monitored,
- A statement of how private student data will be protected,
- A description of the professional development activities offered to teachers.

Townsend Community School is listed as a blended learning school with ODE. Additionally, Townsend Community School declared to ODE on September 15, 2011 that the school intended to use a blended learning model and has included the above points within their Sponsor Agreement. During the course of our audit, however, we identified the following:

FINDING NUMBER 2017-001
(Continued)

- The students do not have any required classroom seat time at the school facility for learning opportunities.
- Students work from home or off-site, and use hard copy books for their curriculum.
- Students do not have any required online time. 'Study Island' is available as a resource but is not required curriculum.

As a result, Townsend's Educational Plan does not appear to conform to the requirements of a blended learning community school. The school should work with its sponsor, its legal counsel, and ODE to ensure that the school is operating in accordance with its sponsor contract and Ohio law, and, that the code of regulations clearly indicates such. The School has asserted that they have sought guidance from ODE and could not provide documentation that ODE responded.

Officials' Response:

The School understands that this finding reflects recent positions asserted by the Ohio Department of Education, and although the Auditor notes risks associated with these guidance documents and the School's long-established and publicly declared programs, the Auditor takes no position on the validity of the interpretations cited. With that said, the School notes the following. First, the School has operated in essentially same manner since 2011, and no significant changes in law have occurred since that time regarding credit flexibility, blended learning, or the definition of a facility. The School is not, and has never been, an eschool. Second, Townsend is a successful school. With no marketing budget, the School has grown to become the largest dropout prevention and recovery school in Ohio, exceeds state for graduation rate, is among the top third of all dropout prevention and recovery schools in graduation rate, and met standards among tested students in all tests among tested students in the 2017-2018 school year. Third, the statements regarding blended learning and facilities are the product of guidance that exceeds the scope of statute and has not been adopted by the State Board of Education or publicly vetted as required under Chapter 119 of the Revised Code. The State Board has been tasked with establishing rules for blended learning and adopting a plan for credit flexibility, and no Board approved rules or plans speak to these purported requirements. Further, another oversight agency has confirmed its understanding that public locations not owned or leased by a school are not considered that school's "facilities" for state law purposes. And fourth, the School has crafted its procedures and practices to ensure compliance with established law, and multiple reviews have confirmed that the School meets all requirements for credit flexibility set forth in state law, rule, and the *FY19 Full-Time Equivalency (FTE) Review Manual*.

The School will continue to work with the Department to address any alleged compliance issues. However, to date, despite having participated in numerous meetings with state agencies, annual audits, and FTE reviews, the School remains unaware of any established legal authority forbidding it from continuing to operate its successful program in the manner it has since opening in 2011.

Auditor of State's Conclusion:

The Auditor of State has determined that the School is in noncompliance with the statutes, rules, and regulatory guidance of the ODE. ODE has performed full-time equivalency (FTE) reviews for fiscal years 2017 and 2018, which identified errors and matters of noncompliance related to the school's educational model and reporting of student FTE. Due to the errors and noncompliance, ODE required the School to repay $3,145,768 and $2,274,106 for the 2017 and 2018 school years, respectively, for the overstatement of FTE. The School has entered into settlement agreements with ODE to repay these amounts.

FINDING NUMBER 2017-002

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Capital Assets, Accumulated Depreciation, and Depreciation Expense in the amount of $103,101, $30,930, and $20,620, respectively, were improperly included in the Total Assets and Total Disbursements.

This error was not identified and corrected prior to the School preparing its financial statements due to deficiencies in the School's internal controls over financial statement monitoring. As a result, the School's financial statements and notes to the financial statements did not correctly reflect the financial activity of the School. The accompanying financial statements and notes to the financial statements have been adjusted to correct this and other errors. Additional errors were noted in smaller relative amounts.

To help ensure the School's financial statements and notes to the financial statements are complete and accurate, the Board should adopt policies and procedures, including a final review of the financial statements and notes to the financial statements by the Treasurer and Board to help identify and correct errors and omissions.

Officials' Response:

The School has addressed this issue through its internal practices and with its third-party vendor to ensure financial statements are reported in the preferred manner going forward.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Finding first reported in 2013, Ohio Rev. Code § 117.38 and material weakness for failure to file on the GAAP basis.	Fully corrected.	N/A
2016-002	Ohio Rev. Code § 3314.08 (H) and material weakness due to lack of support for FTE calculations.	Fully corrected.	N/A
2016-003	Material weakness for errors in financial reporting initially reported as Finding 2016-003.	Not corrected and reissued as Finding 2017-002 in this report.	See Officials' Response in Finding 2017-002.

207 Lowell Street • Castalia, Ohio 44824 • 419-684-5402 • Fax 419-684-5537

OHIO AUDITOR OF STATE
KEITH FABER

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
APRIL 4, 2019