TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY
JUNE 30, 2019

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OHIO AUDITOR OF STATE
KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

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

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, 2019, 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.

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, 2019, and the respective changes in financial position and 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 16 to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. We did not modify our opinion regarding this matter.

Other Matters

Although the School declared to the Ohio Department of Education on September 15, 2011 its intention to operate using a blended learning model, and described such in its sponsor agreement dated December 15, 2015, Townsend Community School's learning method does not meet the legal requirements for the blended learning model in Ohio Rev. Code § 3314.03(A)(29). The Ohio Department of Education communicated concerns about the lack of compliance with the blended learning model to Townsend Community School on August 24, 2018 and again on September 25, 2019. Failure to comply could jeopardize future funding and potentially result in suspension or closure of the School. The notes to the financial statements do not disclose this matter; however, this does not affect our opinion on these financial statements.

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/asset 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 dated July 22, 2020, 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

Keith Faber
Auditor of State

Columbus, Ohio

July 22, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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, 2019. 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 2019 are as follows:

- In total, net position was a deficit balance of $2,488,483 at June 30, 2019.
- The School had operating revenues of $9,211,974, operating expenses of $9,532,650, non-operating revenues of $809,359, and $39,762 in interest and fiscal charges for fiscal year 2019. Total change in net position for the fiscal year was an increase of $448,921 from June 30, 2018.

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 2019?" 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.

In addition to the basic financial statements, this report presents certain required supplementary information concerning the School's net pension liability and net OPEB liability/asset.

The table below provides a summary of the School's net position at June 30, 2019 and June 30, 2018.

Net Position

	Governmental Activities 2019	Governmental Activities 2018
Assets		
Current and other assets	$ 1,987,791	$ 1,798,665
Net OPEB asset	429,375	-
Capital assets, net	4,724,104	4,943,477
Total assets	7,141,270	6,742,142
Deferred outflows of resources	5,860,382	4,648,415
Liabilities		
Current liabilities	2,574,634	2,276,992
Long-term liabilities:		
Net pension liability	7,598,212	5,742,369
Net OPEB liability	754,862	1,258,391
Other amounts	3,391,974	4,719,727
Total liabilities	14,319,682	13,997,479
Deferred inflows of resources	1,170,453	330,482
Net Position		
Investment in capital assets	4,218,271	4,091,810
Restricted	18,623	56,316
Unrestricted (deficit)	(6,725,377)	(7,085,530)
Total net position (deficit)	$ (2,488,483)	$(2,937,404)

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2019 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." The School adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal the School's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflows/outflows.

Analysis of Net Position

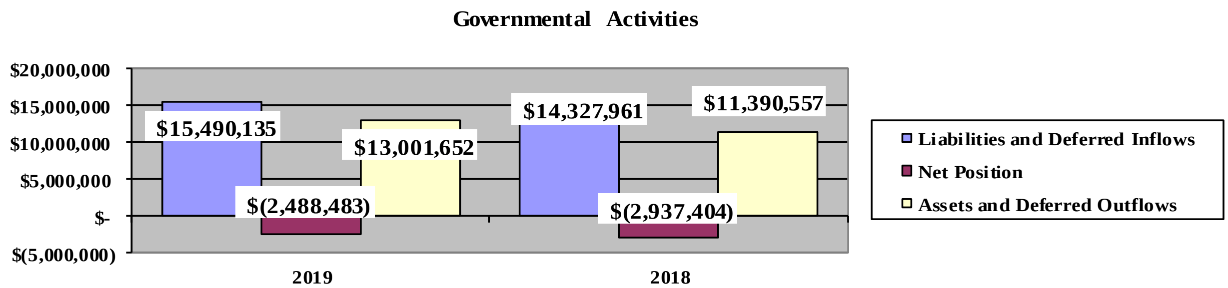
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019, the School's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $2,488,483.

Current assets increased primarily due to an increase in intergovernmental receivable associated with Ohio Department of Education funding adjustment #1 for fiscal year 2019. At year-end, capital assets represented 66.15% of total assets. Capital assets include a building and equipment. Net position invested in capital assets at June 30, 2019, was $4,218,271. 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 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. Non-current liabilities also include the School net pension liability and net OPEB liability. These obligations are outside of the control of the School. The School makes its contractually required contributions to the pension systems; however, the pension systems distribute pensions and OPEB benefits to School employees, not the School. See Note 7 to the basic financial statements for more information on the School's long-term obligations.

A portion of the School's net position, $18,623, is restricted in use. The remaining balance of unrestricted net position is a deficit of $6,725,377.

The graph below illustrates the School's assets, deferred outflows of resources, liabilities and net position at June 30, 2019 and 2018.



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The table below shows the changes in net position for 2019 and 2018.

Change in Net Position

	2019	2018
Operating Revenues:		
State foundation	$ 9,211,974	$ 7,537,430
Operating Expenses:		
Salaries and wages	4,181,658	4,128,429
Fringe benefits	2,372,462	(98,551)
Purchased services	1,430,017	1,515,331
Materials and supplies	1,023,446	1,419,854
Other	305,694	388,474
Depreciation	219,373	214,957
Total operating expenses	9,532,650	7,568,494
Non-operating Revenues (Expenses):		
Federal and state grants	769,372	635,585
Interest revenue	35,727	13,727
Other non-operating revenues	4,260	1,149
Interest and fiscal charges	(39,762)	(51,738)
Total non-operating revenues (expenses)	769,597	598,723
Change in net position	448,921	567,659
Net position (deficit) at beginning of year	(2,937,404)	(3,505,063)
Net position (deficit) at end of year	$ (2,488,483)	$ (2,937,404)

Operating expenses increased $1,964,156 or 25.95%. This increase is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50% in fiscal year 2018. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years.

Pension expense is a component of program expenses reported on the statement of activities. To assess fluctuations in program expenses, the increase or decrease in pension expense should be factored into the analysis. Pension expense for 2019 and 2018 was $1,858,614 and ($1,075,943), respectively. Pension expense reported in 2019 represents an increase of $2,934,557 from pension expense reported in 2018. Pension expense is reported as a component of fringe benefits.

The School's foundation revenue was $9,211,974 in fiscal year 2019 which increased 22.22% from the prior fiscal year. This increase was due to accrual entries to account for foundation adjustment liability. Cash receipts for foundation revenue in fiscal year 2019 totaled 7,356,269 compared to $8,933,926 cash receipts in fiscal year 2018. The School also received $769,372 in state and federal grants and earned interest revenues of $35,727. Miscellaneous receipts, consisting of various refund and rebates, totaled $4,260.

Purchased services were $1,430,017 and consist primarily of payment made to the Sponsor for services. Materials and supplies expense totaled $1,023,446 and other operating expenses were $305,694. Depreciation expense on capital assets was $219,373 while interest and fiscal charges related to the Schools obligation under a ground lease with the Sponsor totaled $39,762.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019, the School had $4,724,104 (net of accumulated depreciation) invested in buildings and equipment. See Note 8 to the basic financial statements for more detail on capital assets.

Debt Administration

The School had $505,833 in a ground lease obligation to its Sponsor and $4,420,047 in foundation adjustments due to ODE at June 30, 2019. Of this total, $1,552,082 is due in one year and $3,373,798 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 44824-9332.

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2019

Assets:		
Current assets:		
Cash and cash equivalents	$	1,125,321
Receivables:		
Intergovernmental		852,337
Prepayments		5,133
Materials and supplies inventory		5,000
Total current assets		1,987,791
Non-current assets:		
Net OPEB asset		429,375
Depreciable capital assets, net		4,724,104
Total non-current assets		5,153,479
Total assets		7,141,270
Deferred outflows of resources:		
Pension (Note 9)		5,017,249
OPEB (Note 10)		843,133
Total deferred outflows of resources		5,860,382
Liabilities:		
Current liabilities:		
Accounts payable		61,728
Accrued wages and benefits		650,296
Compensated absences		108,187
Intergovernmental payable		1,398,590
Ground lease obligation		355,833
Total current liabilities		2,574,634
Non-current liabilities:		
Compensated absences		18,176
Intergovernmental payable		3,223,798
Ground lease obligation		150,000
Net pension liability (Note 9)		7,598,212
Net OPEB liability (Note 10)		754,862
Total non-current liabilities		11,745,048
Total liabilities		14,319,682
Deferred inflows of resources:		
Pension (Note 9)		442,375
OPEB (Note 10)		728,078
Total deferred inflows of resources		1,170,453
Net position:		
Investment in capital assets		4,218,271
Restricted for:		
Restricted for federal programs		17,623
Restricted for student activities		1,000
Unrestricted (deficit)		(6,725,377)
Total net position (deficit)	$	(2,488,483)

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, 2019

Operating revenues:	
Foundation payments.	$ 9,211,974
Operating expenses:	
Salaries and wages.	4,181,658
Fringe benefits.	2,372,462
Purchased services.	1,430,017
Materials and supplies	1,023,446
Other.	305,694
Depreciation	219,373
Total operating expenses.	9,532,650
Operating loss.	(320,676)
Non-operating revenues (expenses):	
Federal and state grants.	769,372
Interest revenue	35,727
Other non-operating revenues.	4,260
Interest and fiscal charges	(39,762)
Total non-operating revenues (expenses). . . .	769,597
Change in net position	448,921
Net position (deficit) at beginning of year . .	(2,937,404)
Net position (deficit) at end of year	$ (2,488,483)

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, 2019

Cash flows from operating activities:	
Cash received from state foundation	$ 7,737,894
Cash payments for salaries and wages	(4,199,141)
Cash payments for fringe benefits	(1,755,835)
Cash payments for purchased services	(1,371,255)
Cash payments for materials and supplies	(996,329)
Cash payments for other expenses	(295,250)
Net cash (used in) operating activities	(879,916)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies	742,564
Cash received from miscellaneous receipts	(3,794)
Net cash provided by noncapital financing activities	738,770
Cash flows from capital and related financing activities:	
Principal retirement on ground lease obligation	(345,834)
Interest and fiscal charges	(39,762)
Net cash (used in) capital and related financing activities	(385,596)
Cash flows from investing activities:	
Interest received	35,727
Net decrease in cash and cash equivalents	(491,015)
Cash and cash equivalents at beginning of year	1,616,336
Cash and cash equivalents at end of year	$ 1,125,321
Reconciliation of operating loss to net cash (used in) operating activities:	
Operating loss	$ (320,676)
Adjustments:	
Depreciation	219,373
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Decrease in materials and supplies inventory	5,250
(Increase) in intergovernmental receivable	(664,287)
Decrease in prepayments	13,758
Increase in accounts payable	24,347
Increase in accrued wages and benefits	36,318
(Decrease) in intergovernmental payable	(780,994)
Increase in compensated absences payable	36,052
(Increase) in net OPEB asset	(429,375)
Increase in net pension liability	1,855,843
(Decrease) in net OPEB liability	(503,529)
(Increase) in deferred outflows - pension	(826,203)
Increase in deferred inflows - pension	253,464
(Increase) in deferred outflows - OPEB	(385,764)
Increase in deferred inflows - OPEB	586,507
Net cash (used in) operating activities	$ (879,916)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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 one instructional/support facility staffed by one superintendent, one operations director, one principal, one vice-principal, one curriculum director, forty certified teaching personnel, eleven support staff, four attendance personnel, four enrollment attendants, three and half psychologists, two treasurer's office staff, and one technology support staff who provide services to an enrollment of 1,078 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 organizations are described due to its relationship to the School:

Public Entity Risk Pools

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.

The School also participates in Jefferson Health Plan, a claims servicing pool established under Ohio Revised Code Chapter 167.

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 Notes 9 and 10 for deferred outflows of resources related to the School's net pension liability and net OPEB liability/asset, respectively.

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

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 Notes 9 and 10 for deferred inflows of resources related to the School's net pension liability and net OPEB liability/asset, respectively.

E. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Ohio Rev. Code Section 3314.03 (11) (d), states that community schools must comply with Ohio Rev. Code Section 5705.391 which 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, Supporting Effective Instruction State Grants 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 2019 school year excluding federal and State grants totaled $9,211,974.

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

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 2019 received was $769,372.

I. Compensated Absences

Compensated absences of the School consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the School and the employee.

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. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

J. 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:

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

Description	Estimated Lives
Buildings	40 years
Equipment	5 - 20 years

K. Pensions/Other Postemployment Benefits (OPEB)

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

L. Materials and Supplies Inventory

Purchased inventories are presented at lower of cost or market and are recorded on a first-in, first-out basis and are expensed/expended when used. Inventories are accounted for using the consumption method.

M. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

N. 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2019, the School has implemented GASB Statement No. 83, "*Certain Asset Retirement Obligations*" and GASB Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At June 30, 2019, the carrying amount of School's deposits was $1,125,321 and the bank balance of School's deposits was $1,143,941. All of the bank balance was covered by the FDIC, with none of the balance subjected to custodial credit risk as disclosed below.

Custodial credit risk is the risk that, in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the School and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. Although 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. There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2019 totaled $852,337. These receivables consisted of intergovernmental grants and entitlements. These receivables are expected to be collected in the subsequent year.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2019, purchased services expenses were as follows:

Professional services	$ 897,315
Property rental and services	33,838
Travel, mileage and meetings	245,397
Communications	108,675
Utilities	40,266
Tuition and similar payments	111,474
Pupil transportation services	(6,948)
Total purchased services	$1,430,017

NOTE 7 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due in One Year
Net pension liability	$ 5,742,369	$ 1,855,843	$ -	$ 7,598,212	$ -
Net OPEB liability	1,258,391	227,596	(731,125)	754,862	-
Ground lease obligation	851,667	-	(345,834)	505,833	355,833
Compensated absences	601	17,575	-	18,176	-
Intergovernmental payable	5,202,803	-	(782,756)	4,420,047	1,196,249
Total	$ 13,055,831	$ 2,101,014	$ (1,859,715)	$ 13,297,130	$ 1,552,082

Net Pension Liability:
See Note 9 for information on the School's net pension liability. The School pays obligations related to employee compensation from the fund benefitting from their service.

Net OPEB Liability:
See Note 10 for information on the School's net OPEB liability. The School pays obligations related to employee compensation from the fund benefitting from their service.

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.

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

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
2020	$ 355,833	$ 28,129	$ 383,962
2021	150,000	9,676	159,676
Total	$ 505,833	$ 37,805	$ 543,638

Intergovernmental payable
As a result of FTE Reviews performed by ODE (see Note 13.B), the School has reported a $4,420,047 liability at June 30, 2019 due to overpayments of State Foundation made in the current fiscal year and in prior fiscal years. The repayments are being made over 60 and 66-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 2019 through 2024:

Fiscal Year	Amount
2020	$ 1,196,249
2021	1,042,627
2022	1,042,628
2023	518,332
2024	413,474
2025	206,737
	$ 4,420,047

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Additions	Disposals	Balance June 30, 2019
Capital assets, being depreciated:				
Buildings	$ 4,944,066	$ -	$ -	$ 4,944,066
Equipment	499,673	-	-	499,673
Depreciable capital assets	5,443,739	-	-	5,443,739
Less: accumulated depreciation:				
Buildings	(301,505)	(123,602)	-	(425,107)
Equipment	(198,757)	(95,771)	-	(294,528)
Total accumulated depreciation	(500,262)	(219,373)	-	(719,635)
Capital assets, net	$ 4,943,477	$ (219,373)	$ -	$ 4,724,104

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 statement of net position.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The 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	Age 65 with 5 years of services credit: or 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; or 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% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% 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% for plan members and 14% 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $130,809 for fiscal year 2019. Of this amount, $7,609 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website 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% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% 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, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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 fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The School was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was $444,701 for fiscal year 2019. Of this amount, $60,059 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, 2018, 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 projected 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	0.02160560%	0.01873897%	
Proportion of the net pension liability current measurement date	0.03008310%	0.02672077%	
Change in proportionate share	0.00847750%	0.00798180%	
Proportionate share of the net pension liability	$ 1,722,915	$ 5,875,297	$ 7,598,212
Pension expense	$ 480,979	$ 1,377,635	$ 1,858,614

At June 30, 2019, 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	$ 94,492	$ 135,620	$ 230,112
Changes of assumptions	38,906	1,041,214	1,080,120
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	491,783	2,639,724	3,131,507
Contributions subsequent to the measurement date	130,809	444,701	575,510
Total deferred outflows of resources	$ 755,990	$ 4,261,259	$ 5,017,249

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 38,369	$ 38,369
Net difference between projected and actual earnings on pension plan investments	47,735	356,271	404,006
Total deferred inflows of resources	$ 47,735	$ 394,640	$ 442,375

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

$575,510 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, 2020.

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

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	$ 453,422	$ 1,317,143	$ 1,770,565
2021	195,206	1,152,038	1,347,244
2022	(56,539)	730,677	674,138
2023	(14,643)	222,060	207,417
Total	$ 577,446	$ 3,421,918	$ 3,999,364

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.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the 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 most recent experience study was completed for the five year period ended June 30, 2015.

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%. 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%). 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%, 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%), or one percentage point higher (8.50%) 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	$ 2,426,855	$ 1,722,915	$ 1,132,708

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation**	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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 7.45%, 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 (6.45%) or one-percentage-point higher (8.45%) than the current rate:

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	$ 8,580,098	$ 5,875,297	$ 3,586,050

NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

The net OPEB liability/asset reported on the statement of net position represents a liability/asset to employees for OPEB. OPEB is a component of exchange transactions–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability/asset represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability/asset 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 these estimates 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 OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability/asset. Resulting adjustments to the net OPEB liability/asset would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School's surcharge obligation was $102.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was $4,947 for fiscal year 2019. Of this amount, $384 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities/Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability/asset was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.01964670%	0.01873897%	
Proportion of the net OPEB liability/asset current measurement date	0.02720940%	0.02672077%	
Change in proportionate share	0.00756270%	0.00798180%	
Proportionate share of the net OPEB liability	$ 754,862	$ -	$ 754,862
Proportionate share of the net OPEB asset	$ -	$ (429,375)	$ (429,375)
OPEB expense	$ 105,139	$ (832,353)	$ (727,214)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 12,322	$ 50,153	$ 62,475
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	233,544	542,167	775,711
Contributions subsequent to the measurement date	4,947	-	4,947
Total deferred outflows of resources	$ 250,813	$ 592,320	$ 843,133

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 25,017	$ 25,017
Net difference between projected and actual earnings on pension plan investments	1,132	49,053	50,185
Changes of assumptions	67,819	585,057	652,876
Total deferred inflows of resources	$ 68,951	$ 659,127	$ 728,078

$4,947 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	$ 40,275	$ (10,077)	$ 30,198
2021	37,512	(10,077)	27,435
2022	28,762	(10,077)	18,685
2023	29,244	1,062	30,306
2024	29,168	4,971	34,139
Thereafter	11,954	(42,609)	(30,655)
Total	$ 176,915	$ (66,807)	$ 110,108

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates. RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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 %	

Discount Rate **-** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates **-** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School's proportionate share of the net OPEB liability	$ 915,966	$ 754,862	$ 627,298

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
School's proportionate share of the net OPEB liability	$ 609,035	$ 754,862	$ 947,963

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018		July 1, 2017
Inflation	2.50%		2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation
Payroll increases	3.00%		3.00%
Cost-of-living adjustments (COLA)	0.00%		0.00%, effective July 1, 2017
Discounted rate of return	7.45%		N/A
Blended discount rate of return	N/A		4.13%
Health care cost trends			6 to 11% initial, 4.50% ultimate
	Initial	Ultimate	
Medical			
Pre-Medicare	6.00%	4.00%	
Medicare	5.00%	4.00%	
Prescription Drug			
Pre-Medicare	8.00%	4.00%	
Medicare	-5.23%	4.00%	

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation**	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower 6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net OPEB asset	$ 368,015	$ 429,375	$ 480,946

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB asset	$ 478,035	$ 429,375	$ 379,958

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 $108,187 at June 30, 2019 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.

The School paid $14,068 in premiums to the pool for fiscal year 2019 coverage. Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

SORSA financial statements are available by contacting SORSA at:

Schools of Ohio Risk Sharing Authority, Inc.
8050 North High Street, Suite 160
Columbus, Ohio 43235

NOTE 12 - RISK MANAGEMENT - (Continued)

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.

C. Health Insurance

The School contracts with the Jefferson Health Plan to provide medical and prescription drug coverage for its elected officials and full time workers and their dependents; providing the dependents do not have coverage elsewhere. Premiums are paid by the School to the Jefferson Health Plan who contracts with Aetna for medical coverage and CVS/Caremark for prescription coverage.

The Jefferson Health Plan (the Consortium) is a claims servicing pool established pursuant to Ohio Rev. Code Chapter 167. The legislative body of the Consortium is an assembly consisting of a designee from each of its members. The membership of the assembly appoints a Board of Directors, which acts as the managerial body of the Consortium. The Consortium provides a cooperative program to administer medical, prescription, vision, dental and life benefits for employees of the participating entities and their eligible dependents. The School's coverage is combined with other small member entities within the Consortium to form a pool (the Pool). The Pool assumes the risk of loss up to the limits of the School's policy.

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool adequate to fund administrative expenses of the Consortium and to create adequate reserves for claims and allocated expenses. For all individual claims exceeding $500,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount.

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of June 30:

	2019
Cash and investments	$159,282,146
Actuarial liabilities	$ 31,182,310

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, 2019, if applicable, cannot be determined at this time.

NOTE 13 – CONTINGENCIES – (Continued)

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.

Preliminary ODE adjustments for fiscal year 2019 have been finalized. As a result, the impact of the FTE adjustments on the fiscal year 2019 financial statements is an intergovernmental receivable in the amount of $692,692 due to an agreed upon calculation with ODE.

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 2019. The School has appealed ODE's preliminary findings and is currently in the process of negotiating a settlement.

In addition, the School's contract with the Margaretta Local School District requires payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 have been finalized. Any amount due from the School will be paid 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 2019. 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

In the current fiscal year, 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, 2018 and ends on July 31, 2019. 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.

NOTE 16 - SUBSEQUENT EVENT

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. The investments of the pension and other employee benefit plan in which the School participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the School’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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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 FOUR FISCAL YEARS

	2019	2018	2017	2016
School's proportion of the net pension liability	0.03008310%	0.02160560%	0.01584500%	0.01093240%
School's proportionate share of the net pension liability	$ 1,722,915	$ 1,290,887	$ 1,159,708	$ 623,813
School's covered payroll	$ 962,956	$ 617,600	$ 492,086	$ 363,088
School's proportionate share of the net pension liability as a percentage of its covered payroll	178.92%	209.02%	235.67%	171.81%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	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.

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

SEE ACCOMPANYING NOTES TO THE 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
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	2019	2018	2017	2016
School's proportion of the net pension liability	0.02672077%	0.01873897%	0.01199208%	0.00976560%
School's proportionate share of the net pension liability	$ 5,875,297	$ 4,451,482	$ 4,014,111	$ 2,707,483
School's covered payroll	$ 3,157,071	$ 2,140,557	$ 1,276,429	$ 1,031,657
School's proportionate share of the net pension liability as a percentage of its covered payroll	186.10%	207.96%	314.48%	262.44%
Plan fiduciary net position as a percentage of the total pension liability	77.31%	75.30%	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.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2019	**2018**	**2017**	**2016**
Contractually required contribution	$ 130,809	$ 129,999	$ 86,464	$ 68,892
Contributions in relation to the contractually required contribution	(130,809)	(129,999)	(86,464)	(68,892)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 968,956	$ 962,956	$ 617,600	$ 492,086
Contributions as a percentage of covered payroll	13.50%	13.50%	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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2015	
$	47,855
	(47,855)
$	-
$	363,088
	13.18%

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2019	2018	2017	2016
Contractually required contribution	$ 444,701	$ 441,990	$ 299,678	$ 178,700
Contributions in relation to the contractually required contribution	(444,701)	(441,990)	(299,678)	(178,700)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 3,176,436	$ 3,157,071	$ 2,140,557	$ 1,276,429
Contributions as a percentage of covered payroll	14.00%	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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2015
$ 144,432
(144,432)
$ -
$ 1,031,657
14.00%

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	2019	**2018**	**2017**
School's proportion of the net OPEB liability	0.02720940%	0.01964670%	0.01437401%
School's proportionate share of the net OPEB liability	$ 754,862	$ 527,266	$ 409,713
School's covered payroll	$ 962,956	$ 617,600	$ 492,086
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	78.39%	85.37%	83.26%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	2019	**2018**	**2017**
School's proportion of the net OPEB liability/asset	0.02672077%	0.01873897%	0.01199208%
School's proportionate share of the net OPEB liability/(asset)	$ (429,375)	$ 731,125	$ 641,340
School's covered payroll	$ 3,157,071	$ 2,140,557	$ 1,276,429
School's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	13.60%	34.16%	50.24%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	176.00%	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2019	2018	2017	2016
Contractually required contribution	$ 4,947	$ 4,815	$ 171	$ 52
Contributions in relation to the contractually required contribution	(4,947)	(4,815)	(171)	(52)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 968,956	$ 962,956	$ 617,600	$ 492,086
Contributions as a percentage of covered payroll	0.51%	0.50%	0.03%	0.01%

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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2015	
$	2,803
	(2,803)
$	-
$	363,088
	0.77%

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2019	2018	2017	2016
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 3,176,436	$ 3,157,071	$ 2,140,557	$ 1,276,429
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2015	
$	-
	-
$	-
$	1,031,657
	0.00%

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. 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, (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 and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2019.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2019.

(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) 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 the following: 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, (g) mortality among disabled members was updated to the following: 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, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate.

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Townsend Community School, Erie County, Ohio (the School) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated July 22, 2020, wherein we noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. We also noted the School's learning method does not meet the legal requirements for the blended learning model in Ohio Rev. Code § 3314.03(A)(29).

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 2019-002 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2019-001 and 2019-002.

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

July 22, 2020

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2019

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

FINDING NUMBER 2019-001

Noncompliance Citation

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 Rev. 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), 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." (emphasis added). 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.

An FTE review over fiscal year 2019 was conducted by ODE in accordance with ORC 3314.08 (H)(3), ORC 3314.08 (H)(2), ORC 3314.03 (A)(11), and the FTE Review Manual. The final determination from the FTE review indicated, in part, "Concerns about the method of instruction the quality of curriculum, and absence of required classroom instruction was noted in the FTE review, and is currently being reviewed by the Office of Community Schools and the Office of the Chief Legal Counsel. The Department has sent correspondence to both Townsend and Townsend's sponsor regarding these practices".

FINDING NUMBER 2019-001
(Continued)

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 in regards to blended learning:

- For 85% (17 out of 20) of the students selected for examination, there was no evidence of physical attendance documented in the School's kiosk, as required by the School's Attendance for Blended Learning policy.
- 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:

Townsend offers a blended learning program to all students that complies with all legal requirements, including a purported requirement that students be on-site for 51% of instructional time and participate through an online curriculum. However, also in accordance with its sponsorship contract, and as required under state law, Townsend offers its students options to earn credits through credit flexibility. Credit flexibility is regularly used by schools and districts throughout Ohio to address credit deficiencies, especially among at-risk youth.

The Finding applies purported blended learning requirements to all Townsend students, including those utilizing credit flexibility. However, Townsend students who utilize credit flexibility are not subject to blended learning requirements. The School agrees with the Auditor's assertion that there are no laws preventing a school from providing credit flexibility as an education option for up to a school-wide basis provided that all students choose to engage in the program and the school complies with all other requirements for credit flexibility—as Townsend does.

Community schools have wide latitude to operate in any manner not expressly prohibited by law or the terms of its sponsorship contract. R.C. 3314.04 (exempting community schools from the majority of state laws applicable to school districts unless expressly subject). As a nonprofit corporation, Townsend "may do all things permitted by law and exercise all authority within the purposes stated in its articles or incidental to those purposes." R.C. 1702.12(F)(9); *Cent. Ohio Nat. Gas & Fuel Co. v. Capital City Dairy Co.*, 60 Ohio St. 96, 104, 53 N.E. 711, 712 (1899) ("It is a general rule, as sound as it is well settled, that a corporation, in addition to the powers expressly granted, has, by necessary implication, the power to do whatever is needed to carry into effect those granted, and accomplish the purposes of its creation, unless the particular act is forbidden by the law or charter. This is, in substance, the statutory rule of Ohio corporations."). We understand why this corporate principle may have been overlooked because it contrasts with laws applicable to some other public entities, including school districts and the Auditor itself, which, as creatures of statute, may only act in accordance with clear express statutory authorization. *See*, *e.g., Wolf v. Cuyahoga Falls City Sch. Dist. Bd. of Edn*., 52 Ohio St. 3d 222, 224 (1990) ("School boards are creations of statute and have no more authority than what has been conferred on them by statute or what is clearly implied therefrom."). The principle, however, is key to the legislative intent in creating community schools as a deregulated option in public education.

FINDING NUMBER 2019-001
(Continued)

In sum, when analyzing whether a community school's action is permissible, the question is not whether state law authorizes an action, but rather whether a law expressly forbids the practice. Again, the School agrees with the Auditor that there are no legal restrictions applicable to Townsend's use of credit flexibility in providing quality educational options for students, and blended learning requirements are separate from and do not apply to students utilizing credit flexibility for earning high school credit. As such, Townsend again asserts that its practices comply in all regards with applicable state law.

As a final point, Townsend notes that the Finding references an "implemented" definition of facility that has not been adopted by the State Board of Education and conflicts with state law. Specifically, pursuant to Chapter 3314 of the Ohio Revised Code, any location only qualifies as a "facility" when the community school has an ownership interest in the property. R.C. 3314.19. As such, the Department of Education's implemented definition is inapplicable to areas where students engage in distance learning or independent study and has limited application for attendance purposes.

Auditor of State's Conclusion:

The Auditor of State has asserted to the School with great emphasis that there is no statute or guidance that permits credit flex to be an operational model. Even more, Townsend has submitted to ODE, and additionally, agreed in its sponsorship agreement, to be operating under a blended learning model. The Auditor of State performed testing to determine if Townsend was in compliance as a blended learning model. This Office determined that the School does not appear to be in compliance with the statutes, rules, and regulatory guidance of the ODE as it pertains to blended learning opportunities. ODE has performed a full-time equivalency (FTE) review and issued a related Final Determination letter (which the School is appealing) for fiscal year 2019, which identified concerns with the School's blended learning education model.

FINDING NUMBER 2019-002

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 3314.08(C) provides the formula upon which community schools are funded on a fulltime equivalency basis. In addition, **§ 3314.08(H)** requires the Department of Education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The processes for calculating fulltime equivalency and any enrollment for less than the equivalent of a full school year used by the Ohio Department of Education (ODE) under **Ohio Rev. Code § 3314.08(H)** are reflected in its 2019 FTE Review Manual available on its website. In order for the School to receive accurate funding under **Ohio Rev. Code § 3314.08(C)**, the School should follow the procedures outlined in the 2019 FTE Review Manual.

As permitted by **Ohio Rev. Code § 3314.08(H)(2)**, ODE has established student participation criteria and documentation requirements for community schools with blended learning in their 2019 FTE Review Manual. Participation in learning opportunities provided by a community school is defined in the community school's contract with its sponsor and is documented through daily attendance for the brick and mortar portion and participation in durational learning opportunities for non-classroom time similar to an e-school.

The 2019 FTE Review Manual states, "Schools must document all non-classroom-based learning opportunities, and have a teacher certify them. …If the non-classroom activities are computer-based, this should match the amount of time the school's online system is tracking, if applicable. If a school's online system does not track the amount of time students participate in online learning opportunities, schools may document these learning opportunities using the Minimum Documentation Requirements for Non-Classroom, Non-Computer Based Learning Opportunities."

FINDING NUMBER 2019-002
(Continued)

Additionally, the 2019 FTE Review Manual states "Schools may not estimate the time it takes for students to complete tasks. Schools can claim only the verified time a student is taking part in classroom or non-classroom-based learning opportunities. Teachers must certify non-classroom-based learning opportunities."

The following issues were noted during testing of twenty students, over five days per each student, selected for review for the fiscal year ended June 30, 2019:

- Duration participation support provided by the School did not substantiate the number of learning opportunities reported for 60% (12 out of 20) of students tested, resulting in variances between the number of hours reported by the School and number of hours substantiated by documentation. Furthermore, student total hours reported by the School to ODE via the Education Management Information System did not agree to support for student's total hours of 5% (1 out of 20) of students tested; and

- For 45% (9 out of 20) of students selected for testing, the School reported student hours in EMIS for text message communications between the student and instructors. In each of these instances, .25 hours was reported in EMIS. The hours claimed appear to be an estimate because the same duration was reported for each text and does not appear to be based on the actual duration of the contact.

In a letter to the School dated September 25, 2019 ODE reported the following pertinent audit matters identified during its 2018-2019 school year FTE review, which while observed at a much lower frequency than during previous reviews, resulted in variances between the FTE claimed by the School and the FTE determined by ODE:

- Hours claimed outside the enrollment period;
- Overlapping time where a student claimed the same period on paper logs;
- Duplicated time between student logs and instructional time separately reported by a teacher;
- Time spent enrolling in school;
- Reported employment hours that exceeded the number of learning hours reported;
- Student logs that did not indicated the task or subject the student was engaged in;
- Altered dates on the student logs;
- Student logs without start and end times; and
- Logs were not provided for several students.

The School is currently appealing the ODE report.

Based on the above listed issues, the School did not have sufficient policies and procedures in place to capture non-classroom based durational time in a manner allowed by the 2019 FTE Review Manual. Failure to accurately capture and provide detailed supporting documentation of a student's non-classroom based learning opportunities may result in the School inaccurately reporting FTEs which may further result in the School receiving more funding than they are entitled to under State law.

The School should develop policies and procedures in order to identify and compile non-classroom based durational data. Proper policies and procedures may help ensure the School reports the correct number of FTEs and the State subsequently provides the correct amount of funding to the School.

FINDING NUMBER 2019-002
(Continued)

ODE receives a copy of this audit report. As a result of this issue they may subsequently perform an FTE review over future years, potentially impacting school funding.

Officials' Response:

Townsend has implemented significant measures to address miscounting of student hours, and, as in prior years, the differences in accounting are immaterial and predominantly clerical. Townsend will continue to address data entry matters with fidelity going forward.

Townsend Community School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	**Ohio Rev. Code § 3302.41(A)** for the failure to meet the requirements for schools offering blended learning opportunities.	Not corrected and reissued as Finding 2019-001 in this report.	This instance of non-compliance occurred due to deficiencies in the School's internal controls over compliance. The School has reviewed all blended learning and credit flexibility policies and practices and ensured alignment with applicable state law. Further, the School continues to engage in discussions with the Department of Education regarding its concerns.
2018-002	**Ohio Rev. Code § 3314.08(C)** and material weakness for the failure to properly report FTEs to ODE.	Not corrected and reissued as Finding 2019-002 in this report.	This instance of non-compliance occurred due to deficiencies in the School's internal controls over compliance. The School has added additional administrative checks and reviews to log entries to help promote greater accuracy. Further, the School is converting much of its learning to a digital format that should help with documented participation data going forward.

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OHIO AUDITOR OF STATE
KEITH FABER

TOWNSEND COMMUNITY SCHOOL

ERIE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.

Certified for Release 8/11/2020

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