TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY
JUNE 30, 2018

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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, 2018, 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter – New Accounting Guidance

As discussed in Note 3 to the financial statements, during 2018, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* We did not modify our opinion regarding this matter.

Emphasis of Matter – Financial Distress

As discussed in Notes 7 and 13 to the financial statements, the Ohio Department of Education (ODE) conducted a Full-Time Equivalency (FTE) review over student FTE amounts reported by the School for the years ended June 30, 2013, 2014, 2017, and 2018. As a result of the reviews, ODE made a determination that the School overstated FTE amounts for the years and ODE would require repayment of $5,202,283 as of June 30, 2018. The School has a net position deficiency as a result of this liability. Note 16 also describes management's evaluation of the events and conditions and their plans to mitigate this matter. Our opinion is unmodified 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. 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 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 October 2, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

October 2, 2019

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TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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, 2018. 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 2018 are as follows:

- In total, net position was a deficit balance of $2,937,404 at June 30, 2018.
- The School had operating revenues of $7,537,430, operating expenses of $7,568,494, non-operating revenues of $650,461, and $51,738 in interest and fiscal charges for fiscal year 2018. Total change in net position for the fiscal year was an increase of $567,659 from June 30, 2017 (as restated – see Note 3).

Using this Annual Financial Report

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

Reporting the School's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2018?" 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.

The table below provides a summary of the School's net position at June 30, 2018 and June 30, 2017. The net position at June 30, 2017 has been restated as described in note 3.A.

Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Assets		
Current and other assets	$ 1,798,665	$ 1,089,247
Capital assets, net	4,943,477	5,114,280
Total assets	6,742,142	6,203,527
Deferred outflows of resources	4,648,415	1,785,824
Liabilities		
Current liabilities	2,276,992	1,489,176
Long-term liabilities:		
Net pension liability	5,742,369	5,173,819
Net OPEB liability	1,258,391	1,051,053
Other amounts	4,719,727	3,780,366
Total liabilities	13,997,479	11,494,414
Deferred inflows of resources	330,482	-
Net Position		
Investment in capital assets	4,091,810	3,928,863
Restricted	56,316	-
Unrestricted (deficit)	(7,085,530)	(7,433,926)
Total net position (deficit)	$ (2,937,404)	$ (3,505,063)

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, 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.

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 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, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit $2,454,181 to a deficit $3,505,063.

Analysis of Net Position

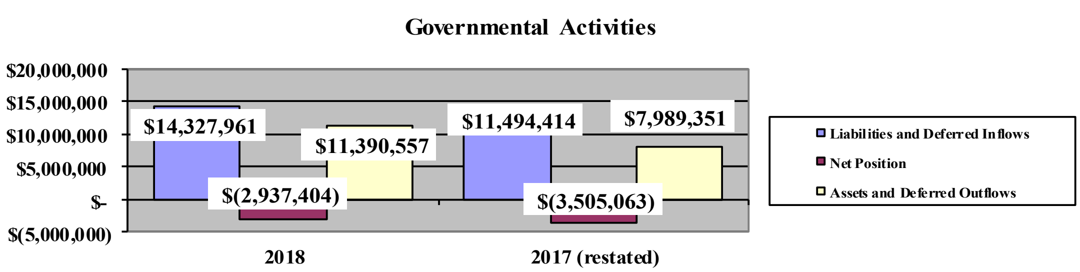
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the School's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $2,937,404.

Current assets increased primarily due to an increase in cash and cash equivalents due to current operations. At year-end, capital assets represented 73.32% of total assets. Capital assets include a building and equipment. Net position invested in capital assets at June 30, 2018, was $4,091,810. 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.

Current liabilities increased primarily due to current amounts owed to the State of Oho for overpayments of Foundation payments. The School has reported long-term liabilities for overpayments of Foundation revenue from the State of Ohio in fiscal year 2018 and in prior fiscal years and for obligations under a ground lease agreement with Margaretta Local School District. The amounts due on these obligations in the subsequent fiscal year are reported as current liabilities with the remainder being reported as long-term liabilities. 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, $56,316, is restricted in use. The remaining balance of unrestricted net position is a deficit of $7,085,530.

The graph below illustrates the School's assets, deferred outflows of resources, liabilities and net position at June 30, 2018 and 2017. The amounts at June 30, 2017 have been restated as described in Note 3.A.



The table below shows the changes in net position for 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

Change in Net Position

	2018	Restated 2017
Operating Revenues:		
State foundation	$ 7,537,430	$ 4,819,179
Operating Expenses:		
Salaries and wages	4,128,429	2,812,757
Fringe benefits	(98,551)	1,297,522
Purchased services	1,515,331	1,248,348
Materials and supplies	1,419,854	1,522,010
Other	388,474	198,918
Depreciation	214,957	195,288
Total operating expenses	7,568,494	7,274,843
Non-operating Revenues (Expenses):		
Grants and subsidies	635,585	506,879
Interest revenue	13,727	4,653
Miscellaneous	1,149	8,011
Interest and fiscal charges	(51,738)	(70,633)
Total non-operating revenues (expenses)	598,723	448,910
Change in net position	567,659	(2,006,754)
Net position at beginning of year (restated)	(3,505,063)	N/A
Net position at end of year	$ (2,937,404)	$ (3,505,063)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $171 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $103,474. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 7,568,494
Negative OPEB expense under GASB 75	103,474
2018 contractually required contributions	4,815
Adjusted 2018 program expenses	7,676,783
Total 2017 program expenses under GASB 45	7,274,843
Increase in program expenses not related to OPEB	$ 401,940

Operating expenses increased $293,651 or 4.04%. This increase is primarily due to increased certified employees and related salary and wage expense. This increase was partially offset by a decrease in fringe benefit expenses resulting from adjustments for the School's net pension liability and net OPEB liability as a 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%. On an accrual basis, the School reported ($1,075,943) in pension expense and ($103,474) in OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years. Pension expense is a component of operating expenses reported on the statement of revenues, expenses, and changes in net position. To assess fluctuations in operating expenses, the increase or decrease in pension expense should be factored into the analysis. Pension expense, by object, for 2018 and 2017 follows:

Operating expenses:	2018 Pension Expense	2017 Pension Expense	Increase (Decrease)
Fringe benefits	$ (1,075,943)	$ 608,688	$ (1,684,631)

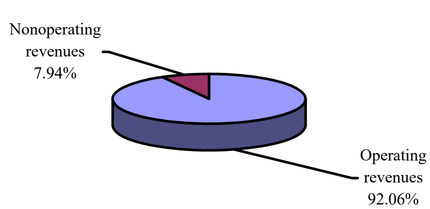
For fiscal year 2018, the School has reported a negative fringe benefits expense resulting from the negative pension and OPEB expenses which are components of that expense category.

The School's foundation revenue was $7,537,430 in fiscal year 2018 which increased 56.40% from the prior fiscal year. This increase was due to an accrual entry in fiscal year 2017 to account for a $3,417,841 foundation adjustment liability. Cash receipts for foundation revenue in fiscal year 2017 totaled 7,641,234 compared to $8,933,926 cash receipts in fiscal year 2018. The School also received $635,585 in state and federal grants and earned interest revenues of $13,727. Miscellaneous receipts, consisting of various refunds and rebates, totaled $1,149.

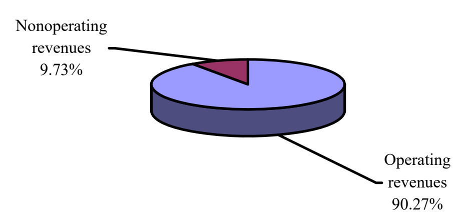
Purchased services were $1,515,331 and consist primarily of payment made to the Sponsor for services. Materials and supplies expense totaled $1,419,854 and other operating expenses were $388,474. Depreciation expense on capital assets was $214,957 while interest and fiscal charges related to the Schools obligation under a ground lease with the Sponsor totaled $51,738.

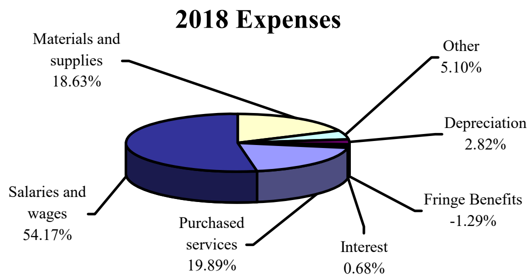
The charts below illustrate the revenues and expenses for the School during fiscal year 2018 and fiscal year 2017.

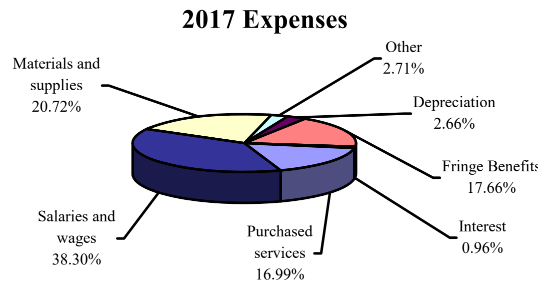
2018 Revenues



2017 Revenues







Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the School had $4,943,477 (net of accumulated depreciation) invested in buildings, furniture, fixtures and equipment. See Note 8 to the basic financial statements for more detail on capital assets.

Debt Administration

The School had $851,667 in a ground lease obligation to its Sponsor and $5,202,803 in foundation adjustments due to ODE at June 30, 2018. Of this total, $1,335,344 is due in one year and $4,719,126 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.

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TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:		
Current assets:		
Cash and cash equivalents	$	1,616,336
Receivables:		
Intergovernmental		153,188
Prepayments		18,891
Materials and supplies inventory		10,250
Total current assets		1,798,665
Non-current assets:		
Depreciable capital assets, net		4,943,477
Total assets		6,742,142
Deferred outflows of resources:		
Pension (Note 9)		4,191,046
OPEB (Note 10)		457,369
Total deferred outflows of resources		4,648,415
Liabilities:		
Current liabilities:		
Accounts payable		37,381
Accrued wages and benefits		613,978
Compensated absences		89,710
Intergovernmental payable		1,190,090
Ground lease obligation		345,833
Total current liabilities		2,276,992
Non-current liabilities:		
Compensated absences		601
Intergovernmental payable		4,213,292
Ground lease obligation		505,834
Net pension liability (Note 9)		5,742,369
Net OPEB liability (Note 10)		1,258,391
Total non-current liabilities		11,720,487
Total liabilities		13,997,479
Deferred inflows of resources:		
Pension (Note 9)		188,911
OPEB (Note 10)		141,571
Total deferred inflows of resources		330,482
Net position:		
Investment in capital assets		4,091,810
Restricted for:		
Restricted for federal programs		55,816
Restricted for student activities		500
Unrestricted (deficit)		(7,085,530)
Total net position (deficit)	$	(2,937,404)

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, 2018

Operating revenues:	
Foundation payments.	$ 7,537,430
Operating expenses:	
Salaries and wages.	4,128,429
Fringe benefits.	(98,551)
Purchased services.	1,515,331
Materials and supplies	1,419,854
Other.	388,474
Depreciation	214,957
Total operating expenses.	7,568,494
Operating loss.	(31,064)
Non-operating revenues (expenses):	
Federal and state grants.	635,585
Interest revenue	13,727
Other non-operating revenues.	1,149
Interest and fiscal charges	(51,738)
Total non-operating revenues (expenses). . . .	598,723
Change in net position	567,659
Net position (deficit) at beginning of year (restated)	(3,505,063)
Net position (deficit) at end of year	$ (2,937,404)

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, 2018

Cash flows from operating activities:	
Cash received from state foundation	$ 9,322,152
Cash payments for salaries and wages.	(3,971,367)
Cash payments for fringe benefits	(1,610,242)
Cash payments for purchased services	(1,422,101)
Cash payments for materials and supplies	(1,462,875)
Cash payments for other expenses	(337,667)
Net cash provided by operating activities	517,900
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	585,186
Cash received from miscellaneous receipts	1,149
Net cash provided by noncapital financing activities.	586,335
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(44,154)
Principal retirement on ground lease obligation	(333,750)
Interest and fiscal charges	(51,738)
Net cash (used in) capital and related financing activities.	(429,642)
Cash flows from investing activities:	
Interest received	13,727
Net increase in cash and cash equivalents	688,320
Cash and cash equivalents at beginning of year	928,016
Cash and cash equivalents at end of year	$ 1,616,336
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (31,064)
Adjustments:	
Depreciation	214,957
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) in materials and supplies inventory	(1,010)
Decrease in intergovernmental receivable	10,385
Decrease in prepayments	19,926
(Decrease) in accounts payable.	(39,611)
Increase in accrued wages and benefits	184,457
Increase in intergovernmental payable	1,910,134
Increase in compensated absences payable	5,947
Increase in net pension liability	568,550
Increase in net OPEB liability	207,338
(Increase) in deferred outflows - pension	(2,405,393)
Increase in deferred inflows - pension	188,911
(Increase) in deferred outflows - OPEB	(457,198)
Increase in deferred inflows - OPEB	141,571
Net cash provided by operating activities	$ 517,900

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE COMMUNITY SCHOOL

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

The School was approved for operation under contract with Margaretta Local School District (the "Sponsor") in previous audits. The current contract is effective for the period of July 1, 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 a half psychologists, two treasurer's office staff, and one technology support staff who provide services to an enrollment of 1,160 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant accounting policies are described below.

A. Reporting Entity

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

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

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

Public Entity Risk Pool

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

B. Basis of Presentation

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

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

C. Measurement Focus and Basis of Accounting

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

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, see Notes 9 and 10 for deferred outflows of resources related to the School's net pension liability and net OPEB liability, respectively.

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, respectively.

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

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, 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 2018 school year excluding federal and State grants totaled $7,537,430.

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 2018 received was $635,585.

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

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:

Description	Estimated Lives
Buildings	40 years
Equipment	5 - 20 years

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

K. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, 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, 2018 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/Restatement of Net Position

For fiscal year 2018, the School has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", GASB Statement No. 81 "*Irrevocable Split-Interest Agreements*" GASB Statement No. 85, "*Omnibus 2017*" and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the School's postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements, and added required supplementary information.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position as previously reported	$ (2,454,181)
Deferred outflows - payments subsequent to measurement date	171
Net OPEB liability	(1,051,053)
Restated net position at July 1, 2017	$ (3,505,063)

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

NOTE 4 - DEPOSITS

At June 30, 2018, the carrying amount of School's deposits was $1,616,336 and the bank balance of School's deposits was $1,765,292. Of the bank balance, $250,000 was covered by the FDIC and $1,515,292 was uninsured and uncollateralized.

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 market 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 market 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 District 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, 2018 totaled $153,188. These receivables consisted of intergovernmental grants and entitlements and amounts due from the School's Sponsor related to overpayments of State Foundation. These receivables are expected to be collected in the subsequent year.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2018, purchased services expenses were as follows:

Professional services	$ 959,944
Property rental and services	58,969
Travel, mileage and meetings	209,090
Communications	95,671
Utilities	46,061
Tuition and similar payments	125,690
Pupil transportation services	19,906
Total purchased services	$1,515,331

NOTE 7 - LONG-TERM OBLIGATIONS

The School's long-term obligations during the year consist of the following changes. The long-term obligations at June 30, 2017 have been restated as described in Note 3.A.

	Restated Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due in One Year
Net pension liability	$ 5,173,819	$ 568,550	$ -	$ 5,742,369	$ -
Net OPEB liability	1,051,053	207,338	-	1,258,391	-
Total net pension liability	6,224,872	775,888	-	7,000,760	-
Ground lease obligation	1,185,417	-	(333,750)	851,667	345,833
Compensated absences	-	601	-	601	-
Intergovernmental payable	3,416,641	2,274,106	(487,944)	5,202,803	989,511
Total	$ 10,826,930	$ 3,050,595	$ (821,694)	$ 13,055,831	$1,335,344

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 pension liability. The School pays obligations related to employee compensation from the fund benefitting from their service.

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

Ground Lease Obligation:
On January 29, 2016, the Margaretta Local School District ("Margaretta LSD") and the School entered into an agreement to amend the Ground Lease dated June 30, 2014. Under the terms of amended Ground Lease, the School will pay Margaretta LSD lease payments equal to the principal and interest requirements on the $1.7 million lease-purchase obligation entered into between Margaretta LSD and FirstMerit Bank in February 2016. The term of the lease is five years through December 1, 2020. There is a call period whereby the balance of the lease can be paid in full no sooner than December 1, 2018.The proceeds of the lease-purchase obligation were used to finance improvements to the Townsend Community School Learning Center, which include the addition of an approximately 28,500 square foot facility. The Ground Lease between Margaretta Local School District and Townsend Community School is being used to collateralize the lease between Margaretta Local School District and First Merit Bank. In addition to the lease payments, the School is required to pay Margaretta LSD a finance charge equal to 3% on all payments required under the agreement. These finance charges are used by the Margaretta LSD to mitigate risk and administer the lease-purchase obligation with FirstMerit Bank. The following is the School's future debt service requirements under the amended ground lease obligation:

	Ground Lease Obligation		
Fiscal Year Ending,	Principal	Interest and Fiscal Charges	Total
2019	$ 345,833	$ 28,531	$ 374,364
2020	355,834	16,945	372,779
2021	150,000	5,025	155,025
Total	$ 851,667	$ 50,501	$ 902,168

Intergovernmental payable
As a result of FTE Reviews performed by ODE (see Note 13.B), the School has reported a $5,202,803 liability at June 30, 2018 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 2018 through 2024:

Fiscal Year	Amount
2019	$ 989,511
2020	1,196,238
2021	1,042,625
2022	1,042,625
2023	518,332
2024	413,472
	$ 5,202,803

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets, being depreciated:				
Buildings	4,944,066	-	-	4,944,066
Equipment	455,519	44,154	-	499,673
Depreciable capital assets	5,399,585	44,154	-	5,443,739
Less: accumulated depreciation:				
Buildings	(177,903)	(123,602)	-	(301,505)
Equipment	(107,402)	(91,355)	-	(198,757)
Total accumulated depreciation	(285,305)	(214,957)	-	(500,262)
Governmental activities capital assets, net	$ 5,114,280	$ (170,803)	$ -	$ 4,943,477

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.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 both the accrual and modified accrual bases of accounting.

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.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $129,999 for fiscal year 2018. Of this amount, $11,192 is reported as intergovernmental payable.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent 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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 2018, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $441,990 for fiscal year 2018. Of this amount, $63,838 is reported as intergovernmental payable.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, 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	0.01584500%	0.01199208%	
Proportion of the net pension liability current measurement date	0.02160560%	0.01873897%	
Change in proportionate share	0.00576060%	0.00674689%	
Proportionate share of the net pension liability	$ 1,290,887	$ 4,451,482	$ 5,742,369
Pension expense	$ 118,418	$ (1,194,361)	$ (1,075,943)

At June 30, 2018, 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	$ 55,554	$ 171,895	$ 227,449
Net difference between projected and actual earnings on pension plan investments			-
Changes of assumptions	66,752	973,588	1,040,340
Difference between School contributions and proportionate share of contributions/ change in proportionate share	380,222	1,971,046	2,351,268
School contributions subsequent to the measurement date	129,999	441,990	571,989
Total deferred outflows of resources	$ 632,527	$ 3,558,519	$ 4,191,046

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 35,878	$ 35,878
Net difference between projected and actual earnings on pension plan investments	6,130	146,903	153,033
Total deferred inflows of resources	$ 6,130	$ 182,781	$ 188,911

$571,989 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, 2019. 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:			
2019	$ 216,652	$ 724,789	$ 941,441
2020	222,027	924,626	1,146,653
2021	87,813	808,843	896,656
2022	(30,094)	475,490	445,396
Total	$ 496,398	$ 2,933,748	$ 3,430,146

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, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, 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 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent 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 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$ 1,791,416	$ 1,290,887	$ 871,592

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent 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 percent of rates for males and 100 percent 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.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	$ 6,381,049	$ 4,451,482	$ 2,826,112

NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability 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 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 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.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

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. Resulting adjustments to the net OPEB liability 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* 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 both the accrual and modified accrual bases of accounting.

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 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent 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 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School did not have a surcharge obligation.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was $4,815 for fiscal year 2018. Of this amount, $415 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.

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 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability 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	0.01437401%	0.01199208%	
Proportion of the net OPEB liability current measurement date	0.01964670%	0.01873897%	
Change in proportionate share	0.00527269%	0.00674689%	
Proportionate share of the net OPEB liability	$ 527,266	$ 731,125	$ 1,258,391
OPEB expense	$ 68,081	$ (171,555)	$ (103,474)

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

At June 30, 2018, 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	$ -	$ 42,205	$ 42,205
Difference between School contributions and proportionate share of contributions/ change in proportionate share	101,070	309,279	410,349
School contributions subsequent to the measurement date	4,815	-	4,815
Total deferred outflows of resources	$ 105,885	$ 351,484	$ 457,369

	SERS	STRS	Total
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	$ 1,392	$ 31,250	$ 32,642
Changes of assumptions	50,035	58,894	108,929
Total deferred inflows of resources	$ 51,427	$ 90,144	$ 141,571

$4,815 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 in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	$ 18,144	$ 40,951	$ 59,095
2020	18,144	40,951	59,095
2021	13,703	40,951	54,654
2022	(348)	40,953	40,605
2023	-	48,764	48,764
Thereafter	-	48,770	48,770
Total	$ 49,643	$ 261,340	$ 310,983

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

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.

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, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 percent, 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.

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 Stocks	22.50	4.75
Non-US Stocks	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, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. 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 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent 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, 2025. 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, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. 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.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's proportionate share of the net OPEB liability	$ 636,741	$ 527,266	$ 440,534

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School's proportionate share of the net OPEB liability	$ 427,837	$ 527,266	$ 658,862

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent 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 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. 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. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent 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. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 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.

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent 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 not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. 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 blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability 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.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's proportionate share of the net OPEB liability	$ 981,524	$ 731,125	$ 533,229

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB liability	$ 507,955	$ 731,125	$ 1,024,844

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 $89,710 at June 30 is recorded on the statement of net position.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

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

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

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

The School paid $14,050 in premiums to the pool for fiscal year 2018 coverage. Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

SORSA financial statements are available by contacting SORSA at:

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

B. Workers' Compensation

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

NOTE 13 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2018, 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.

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 2018.

Additional ODE adjustments for fiscal year 2018 have been finalized. As a result, the impact of the FTE adjustments on the fiscal year 2018 financial statements is an intergovernmental payable in the amount of $2,274,106 due to an agreed upon calculation with ODE.

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 2018 have been finalized. The amount will be repaid through monthly State Foundation Program deductions.

C. Litigation

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

NOTE 14 - SPONSOR AGREEMENT

Margaretta Local School District, Erie County, Ohio (the “Sponsor”) sponsored the School in fiscal year 2018. 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, 2017 and ends on July 31, 2018. Under the terms of the lease agreement, the School will pay the Sponsor rent payments of $24,000 per year and building and grounds maintenance costs of $20,000 per year.

NOTE 16 – MANAGEMENT'S PLAN TO ADDRESS DEFICIT NET POSITION

In an effort to minimize the impact of the School's repayment of foundation funds to the State of Ohio, Townsend Community School management has negotiated agreements with the State to allow for repayment over an extended period of time. Additionally, the School maintains substantial funds in reserve, which decreases the risk of future insolvency. The School's management is confident in the long-term viability of the School.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	2018	2017	2016
School's proportion of the net pension liability	0.02160560%	0.01584500%	0.01093240%
School's proportionate share of the net pension liability	$ 1,290,887	$ 1,159,708	$ 623,813
School's covered payroll	$ 617,600	$ 492,086	$ 363,088
School's proportionate share of the net pension liability as a percentage of its covered payroll	209.02%	235.67%	171.81%
Plan fiduciary net position as a percentage of the total pension liability	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 THREE FISCAL YEARS

	2018	2017	2016
School's proportion of the net pension liabilit	0.01873897%	0.01199208%	0.00976560%
School's proportionate share of the net pension liability	$ 4,451,482	$ 4,014,111	$ 2,707,483
School's covered payroll	$ 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	207.96%	314.48%	262.44%
Plan fiduciary net position as a percentage of the total pension liability	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 FOUR FISCAL YEARS

	2018	**2017**	**2016**	**2015**
Contractually required contribution	$ 129,999	$ 86,464	$ 68,892	$ 47,855
Contributions in relation to the contractually required contribution	(129,999)	(86,464)	(68,892)	(47,855)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 962,956	$ 617,600	$ 492,086	$ 363,088
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 441,990	$ 299,678	$ 178,700	$ 144,432
Contributions in relation to the contractually required contribution	(441,990)	(299,678)	(178,700)	(144,432)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 3,157,071	$ 2,140,557	$ 1,276,429	$ 1,031,657
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

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 TWO FISCAL YEARS

	2018	2017
School's proportion of the net OPEB liability	0.01964670%	0.01437401%
School's proportionate share of the net OPEB liability	$ 527,266	$ 409,713
School's covered payroll	$ 617,600	$ 492,086
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	85.37%	83.26%
Plan fiduciary net position as a percentage of the total OPEB liability	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
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2018	**2017**
School's proportion of the net OPEB liability	0.01873897%	0.01199208%
School's proportionate share of the net OPEB liability	$ 731,125	$ 641,340
School's covered payroll	$ 2,140,557	$ 1,276,429
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	34.16%	50.24%
Plan fiduciary net position as a percentage of the total OPEB liability	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 FOUR FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 4,815	$ 171	$ 52	$ 2,803
Contributions in relation to the contractually required contribution	(4,815)	(171)	(52)	(2,803)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 962,956	$ 617,600	$ 492,086	$ 363,088
Contributions as a percentage of covered payroll	0.50%	0.03%	0.01%	0.77%

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

TOWNSEND COMMUNITY SCHOOL
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2018	**2017**	**2016**	**2015**
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered payroll	$ 3,157,071	$ 2,140,557	$ 1,276,429	$ 1,031,657
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

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 changed in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

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 year 2018.

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.

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.

(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 reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 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.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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.

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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
Ottawa County
207 Lowell Street
Castalia, Ohio 44824

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Townsend Community School, Erie County, Ohio (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 2, 2019, where in we noted the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and we noted the School has a negative net position as a result of the liability related to the School overstating Full-Time Equivalency (FTE). 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 2018-002 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 2018-001 and 2018-002.

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

Keith Faber
Auditor of State

Columbus, Ohio

October 2, 2019

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

FINDING NUMBER 2018-001

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 Revised Code § 3318.01** defines “classroom facilities” as rooms in which pupils regularly assemble in public school buildings to receive instruction and education and such facilities and building improvements for the operation and use of such rooms as may be needed in order to provide a complete educational program, and may include space within which a child care facility or a community resource center is housed. ODE has implemented these definitions within the **Office Quality School Choice Multiple Facilities FAQ**.

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

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

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

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

An FTE review 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, “The method of instruction and absence of required classroom instruction was noted in the FTE review, and was previously referred to the Office of Community Schools for follow-up. The Department has sent correspondence to both Townsend and Townsend’s sponsor regarding these practices”.

FINDING NUMBER 2018-001
(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:

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

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

Officials’ Response:

The School understands that this finding reflects recent positions asserted by the Ohio Department of Education, and although the Auditor notes risks associated with these guidance documents and the School’s long-established and publicly declared programs, the Auditor takes no position on the validity of the interpretations cited. With that said, the School notes the following. First, the School has operated in essentially same manner since 2011, and no significant changes in law have occurred since that time regarding credit flexibility, blended learning, or the definition of a facility. Furthermore, the School is not, and has never been, an e-school. Second, Townsend is a successful school. With no marketing budget, the School has grown to become the largest dropout prevention and recovery school in Ohio, exceeds state standards for graduation rate, is among the top third of all dropout prevention and recovery schools in graduation rate, and met standards among tested students in all tests on its most recent report card. Third, the Auditor’s statements regarding blended learning and facilities are the product of Ohio Department of Education guidance that exceeds the scope of statute, and the regulations specified therein have not been adopted by the State Board of Education or publicly vetted as required under Chapter 119 of the Revised Code. The State Board has been tasked with establishing rules for blended learning and adopting a plan for credit flexibility, and to date no Board approved rules or plans speak to these purported requirements. Importantly, in April 2019, the State Board unanimously passed a resolution establishing a study group analyzing, among other items, the purported requirements raised in this Finding as applied to dropout prevention and recovery schools and questioned the validity of such requirements. Another oversight agency has also confirmed its understanding that public locations not owned or leased by a school are not considered that school's "facility," and the “FAQ” guidance regarding multiple facilities cited by the Auditor as support is no longer available on the Department’s website. And fourth, the School has crafted its procedures and practices to ensure compliance with established law, and multiple reviews have confirmed that the School meets all requirements for credit flexibility set forth in state law, rule, and the *FY19 Full-Time Equivalency (FTE) Review Manual*.

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

FINDING NUMBER 2018-001
(Continued)

Auditor of State's Conclusion:

The Auditor of State has determined that the School is in noncompliance with the statutes, rules, and regulatory guidance of the ODE. ODE has performed a full-time equivalency (FTE) review and issued a related Final Determination letter for fiscal year 2018, which identified errors and matters of noncompliance related to the school's educational model and reporting of student FTE. Due to the errors and noncompliance, ODE required the School to repay $2,274,106 for the 2018 school year, for the overstatement of FTE. The School has entered into a settlement agreement with ODE to repay this amount.

FINDING NUMBER 2018-002

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 2018 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 2018 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 2018 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 2018 FTE Review Manual states, "All non-classroom based learning hours must be certified by a school employee and documented…If the non-classroom activities are computer-based, this should match the amount of time that may be tracked by the school's online system (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."

Additionally, the 2018 FTE Review Manual state, "Schools may not use estimates of time it takes for students to complete tasks. Schools can only claim the verified time a student is participating in learning opportunities through classroom or non-classroom-based learning opportunities. Non-classroom-based learning opportunities must be certified by a teacher."

The following issues were noted during testing of twenty students selected for review for the fiscal year ended June 30, 2018:

- Duration participation support provided by the School did not substantiate the number of learning opportunities reported for 90% (18 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 50% (10 of out 20) of students tested;

FINDING NUMBER 2018-002
(Continued)

- Overlap/duplication of student time between various duration participation support was found in 30% (6 out of 20) of students tested; and

- For 50% (10 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 October 26, 2018 ODE reported the following pertinent audit matters identified during its 2017-2018 school year FTE review, which 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;
- Time School staff spent interfacing with the juvenile justice system for detained students;
- Perceived clerical errors, including a reported fifteen-hour phone call;
- Reported employment hours that exceeded the number of learning hours reported;
- Student logs not certified by a teacher;
- Student logs where the teacher signed the log and then the log was photocopied prior to the student documenting learning opportunities;
- 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
- Other questionable hours, including students with eight to nine consecutive library hours, a student with thirteen consecutive eleven hour days spent reading from 7pm until 3am, students with questionable task and/or subject listed, hours associated with driver's education, child birth, doctor's appointments, and assisting family members.

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 2018 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 based on issues noted by AOS and ODE above.

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.

FINDING NUMBER 2018-002
(Continued)

Officials' Response:

Generally speaking, the School notes that it estimates student percent of time entries in EMIS consistent with the *FY19 Full-Time Equivalency (FTE) Review Manual* and, per the instructions of the Ohio Department of Education, corrects such figures based on actual participation data. In FY 19, the School's estimated repayment (and voluntary withholding) of 17% funding reduction was higher than the actual repayment amount, meaning that the School was *underpaid* based on its estimates and voluntary withholdings. All reported time is checked against completed work submissions and verified by licensed staff consistent with proper and effective policies and procedures for FTE reporting. Further, the School has updated its systems to prevent any overlapping entries.

It is not unexpected that clerical errors may occur when dealing with multiple levels of data entry, especially the large amounts of data at issue in Townsend's case. The School strives to avoid clerical issues has multiple preventative checks in place. However, in listing only the number of students with any clerical discrepancies, the Finding fails to note the limited degree of the errors, which amounts to approximately 2% of all relevant hours reviewed. With that said, the School will continue to work with the Auditor and the Department to improve its practices in this regard.

Auditor of State's Conclusion:

The Auditor of State (AOS) has determined that the School is not compliant with FTE calculations that were submitted to Ohio Department of Education. AOS worked with School EMIS / IT staff to help ensure all documentation, where available, for FTE recalculations was located. Errors were identified and noted within AOS testing. Please see Finding 2018-002 above to identify the number of students identified with FTE calculation errors reported. An ODE FTE review for 2018 was conducted and finalized on October 26, 2018. Matters identified by AOS are consistent with ODE 2018 FTE review findings, which resulted in the School having to repay $2,274,106, as identified in Note 13B.

Townsend Community School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	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 2018-001 in this report.	School has adopted revised attendance procedures for students participating in the blended learning program that comply with applicable guidance. Continued meetings with Sponsor and ODE representatives regarding the status of current law and its application to Townsend (see Officials' Response).
2017-002	Material weakness for errors in financial reporting.	Corrective action taken and finding is fully corrected.	N/A

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OHIO AUDITOR OF STATE
KEITH FABER

TOWNSEND COMMUNITY SCHOOL

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 15, 2019