



Dave Yost · Auditor of State



**TOWNSEND COMMUNITY SCHOOL  
ERIE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of Townsend Community School, Erie County, Ohio (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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, 2012, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the

Townsend Community School  
Erie County  
Independent Accountants' Report  
Page 2

basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink, appearing to read "Dave Yost".

**Dave Yost**  
Auditor of State

November 7, 2013

**Townsend Community School**  
**Erie County, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**(Unaudited)**

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### **Management's Discussion and Analysis**

The discussion and analysis of Townsend Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. 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.

Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis. However, because this is the first year of existence for the School and the first year of adoption of the new reporting model, comparative prior year information does not exist. Subsequent reports will include the comparative information.

### **Financial Highlights**

- In total, net assets were \$479,756 at June 30, 2012.
- The School had operating revenues of \$1,177,737 and operating expenses of \$698,114 for fiscal year 2012. The School had operating income of \$479,623 and non-operating revenue of \$133.

### **Using this Annual Financial Report**

This financial report contains the basic financial statements of the School, as well as the management's discussion and analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity-wide and the fund presentation are the same.

### **Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets**

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during the fiscal year?" The statement of net assets includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**Townsend Community School  
Erie County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)**

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The statement of revenues, expenses and changes in net assets reports the changes in net assets. This change in net assets 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.

These statements report the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**The School as a Whole**

As stated previously, the statement of net assets provides the perspective of the School as a whole. Table 1 provides a summary of the School's net assets for 2012.

**Table 1**

**Net Assets**

	Governmental Activities
	<hr/> 2012 <hr/>
Assets:	
Current and Other Assets	\$580,500
Capital Assets	<hr/> 28,693
Total Assets	<hr/> 609,193
Liabilities:	
Current Liabilities	<hr/> 129,437
Total Liabilities	<hr/> 129,437
Net Assets:	
Invested in Capital Assets	28,693
Unrestricted	<hr/> 451,063
Total Net Assets	<hr/> \$479,756

**Townsend Community School  
Erie County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)**

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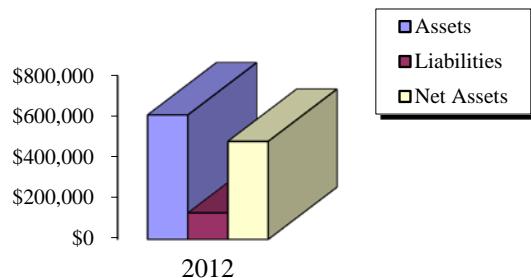


Table 2 shows the changes in net assets for the fiscal years ended June 30, 2012.

**Table 2**

**Changes in Net Assets**

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	<u>Change in Net Assets</u>
	<u>2012</u>
Operating Revenues:	
Foundation Payments	\$1,137,737
Other Revenues	<u>40,000</u>
Total Operating Revenues	<u>1,177,737</u>
Operating Expenses:	
Salaries	154,127
Fringe Benefits	71,784
Purchased Services	210,405
Materials and Supplies	217,625
Depreciation	1,241
Other Expenses	<u>42,932</u>
Total Operating Expenses	<u>698,114</u>
Operating Income	<u>479,623</u>
Non-Operating Revenues:	
Investment Earnings	<u>133</u>
Change in Net Assets	479,756
Net Assets at Beginning of Year	0
Net Assets at End of Year	<u>\$479,756</u>

**Townsend Community School  
Erie County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)**

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The School enrolled nearly 300 students in their first year and graduated over 40 students. The School's significant source of funding is through foundation payments from the Ohio Department of Education. The School's significant source of expenditures includes salaries, purchased services, and materials and supplies. Foundation revenue above also includes an \$8,504 adjustment as determined by the Ohio Department of Education based on the Ohio Department of Education review enrollment data and full time equivalency calculations made by the School.

**Capital Assets**

At June 30, 2012 the capital assets of the School consisted of equipment amounting to \$29,934 with accumulated depreciation of \$1,241.

See Note 4 of the notes to the basic financial statements for more detailed information on the School's capital assets.

**Debt**

At June 30, 2012, the School did not have any outstanding debt obligations. For information regarding other long term obligations, please see Note 9 of the notes to the basic financial statements.

**Current Financial Issues**

The School was formed in 2011 sponsored by Margaretta Local School District. It was anticipated that the School would enroll around 50 students in their first year. In reality, the School enrolled nearly 300 students in their first year and graduated over 40 students. The School has hired additional staff and a principal to accommodate the additional enrollment. The School has also agreed to lease a larger area to provide the adequate services for its students in fiscal year 2013.

**Contacting the School**

This financial report is designed to provide a general overview of the finances of Townsend Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Townsend Community School Attn: Treasurer, 209 Lowell Street, Castalia, Ohio 44824, (419) 684-5402.

Townsend Community School  
Erie County, Ohio  
Statement of Net Assets  
June 30, 2012

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Assets:

Current Assets:

Equity in Pooled Cash and Investments \$571,996

Receivables:

Intergovernmental 8,504

Total Current Assets 580,500

Noncurrent Assets:

Depreciable Capital Assets, Net 28,693

Total Assets 609,193

Liabilities:

Current Liabilities:

Accounts Payable 87,569

Accrued Wages and Benefits 31,859

Compensated Absences 10,009

Total Current Liabilities 129,437

Net Assets:

Invested in Capital Assets 28,693

Unrestricted 451,063

Total Net Assets \$479,756

See accompanying notes to the basic financial statements.

Townsend Community School  
Erie County, Ohio  
Statement of Revenues, Expenses and Change in Net Assets  
For the Fiscal Year Ended June 30, 2012

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Operating Revenues:	
Foundation Payments	\$1,137,737
Other Operating Revenues	<u>40,000</u>
Total Operating Revenues	<u>1,177,737</u>
Operating Expenses:	
Salaries	154,127
Fringe Benefits	71,784
Purchased Services	210,405
Materials and Supplies	217,625
Depreciation	1,241
Other	<u>42,932</u>
Total Operating Expenses	<u>698,114</u>
Operating Income	<u>479,623</u>
Non-Operating Revenues:	
Investment Earnings	<u>133</u>
Change in Net Assets	479,756
Net Assets Beginning of Year	<u></u>
Net Assets End of Year	<u>\$479,756</u>

See accompanying notes to the basic financial statements.

Townsend Community School  
 Erie County, Ohio  
 Statement of Cash Flows  
 Proprietary Fund  
 For the Fiscal Year Ended June 30, 2012

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Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$1,129,233
Other Operating Cash Receipts	40,000
Cash Payments to Employees for Salaries and Benefits	(184,043)
Cash Payments to Purchased Services	(122,916)
Cash Payments for Materials and Supplies	(217,545)
Cash Payments for Other Expenses	(42,932)
Net Cash Provided by Operating Activities	<u>601,797</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	<u>(29,934)</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>133</u>
Net Increase in Cash and Cash Equivalents	571,996
Cash and Cash Equivalents Beginning of Year	<u></u>
Cash and Cash Equivalents End of Year	<u>571,996</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	479,623
Adjustments:	
Depreciation	1,241
Changes in Assets and Liabilities:	
Increase in Receivables	(8,504)
Increase in Accrued Liabilities	41,868
Increase in Payables	<u>87,569</u>
Net Cash Provided by Operating Activities	<u>\$601,797</u>

See accompanying notes to the basic financial statements.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Note 1 – Description of the School and Reporting Entity**

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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 the Margaretta Local School District (the Sponsor) for the period of September 1, 2011 through June 30, 2014. The School operates under a self-appointing five-member Board of Directors (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. 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 director/principal, one certified teaching personnel and one non-certified support personnel who provide services to an enrollment of 129.45 students.

**Note 2 – Summary of Significant Accounting Policies**

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The 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 also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The more significant of the School's accounting policies are described below.

**Basis of Presentation**

Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities is defined as net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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.

**Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Chapter 5705. The School is required to file a five year forecast each fiscal year under Ohio Revised Code Section 5705.391.

**Equity in Pooled Cash**

All monies received by the School are maintained in demand deposit accounts and recorded on the statement of net assets as "Equity in Pooled Cash and Investments."

**Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,500. 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 the asset's life are expensed. Depreciation is computed using the straight-line method over estimated useful lives as follows: Buildings and Improvements 20 to 40 years and Equipment 5 to 10 years.

**Accrued Wages and Benefits**

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2012 including:

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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Accrued wages and benefits payable include salary and health benefits payments made after year-end for services rendered in fiscal year 2012. Teaching personnel are paid in 24 equal installments, ending with the first payroll in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2012 for the salary payments made to personnel after June 30, 2012 related to fiscal year 2012. It also includes payment for the SERS and STRS contributions, Medicare deductions and workers' compensation associated with services rendered during fiscal year 2012 which was not paid until the subsequent fiscal year. A liability has also been recognized for health care payments made after year end for payroll services earned as of June 30, 2012.

**Compensated Absences**

Compensated absences of the School consist of vacation leave and severance liability 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.

Sick leave and benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for all employees after 20 years of current service with the School. At fiscal year-end, none of the School's employees meet the qualifications to accrue the sick leave portion of the compensated absences liability.

The vacation leave compensated absences liability is reported on the basic financial statements using pay rates in effect at June 30, 2012.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

As of June 30, 2012, the School had no restricted net assets.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Operating and Non-Operating Revenues and Expenses**

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

Non-operating revenues are those that are not generated directly by the School's primary mission. Investment Earnings comprises the non-operating revenues of the School.

**Intergovernmental Revenue**

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period for which all eligibility requirements have been met. Foundation revenue received by the School during fiscal year 2012 was \$1,137,737.

**Estimates**

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

**Note 3 – Deposits**

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

As of June 30, 2012, \$331,798 of the School's bank balance of \$581,798 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Note 4 – Capital Assets**

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A summary of the School's capital assets at June 30, 2012, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital Assets, being depreciated:</i>				
Equipment	\$0	\$29,934	\$0	\$29,934
Less Accumulated Depreciation:				
Equipment	0	1,241	0	1,241
Capital Assets, Net	<u>\$0</u>	<u>\$28,693</u>	<u>\$0</u>	<u>\$28,693</u>

**Note 5 – Risk Management**

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The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2012, the School has contracted with the Schools of Ohio Risk Sharing Authority (SORSA) to provide insurance coverage in the following amounts:

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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Limits of Coverage	Carrier	Coverage	Deductible
General Liability:	Somers Agency, Inc.		
Bodily Injury & Property Damage		\$12,000,000	None
Personal Injury/Advertising Liability		12,000,000	None
Products/Completed Operations		12,000,000	None
Employers Stop Gap Liability			
Bodily Injury by Accident - Each Accident		12,000,000	None
Bodily Injury by Disease - Policy Limit		12,000,000	None
Bodily Injury by Disease - Each Employee		12,000,000	None
Aggregate Limit		12,000,000	None
General Annual Aggregate		14,000,000	None
Fire Legal Liability		500,000	None
Medical Payments Occurrence/Aggregate		5,000 / 25,000	None
Educators' Legal Liability:	Somers Agency, Inc.		
Wrongful Acts Coverage per occurrence		12,000,000	\$5,000
Wrongful Acts Coverage Aggregate		12,000,000	
Employee Benefits Liability		12,000,000	None
Automobile Liability:	Somers Agency, Inc.		
Non Owned & Hired Only - no scheduled autos		12,000,000	None
Medical Payments (occurrence/aggregate)		n/a	None
Uninsured/Underinsured Motorist		n/a	None
Automobile Physical Damage	Somers Agency, Inc.	n/a	n/a
Property:	Somers Agency, Inc.		
Building & Business Personal Property Limit		10,000	1,000
Earthquake		2,000,000	50,000
Flood Limit (Zone A Excluded)		2,000,000	50,000
Equipment Breakdown:	Somers Agency, Inc.	50,000,000	1,000
CFC Refrigerants		250,000	1,000
Hazardous Substance Contamination		250,000	1,000
Spoilage		250,000	1,000
Expediting Expenses		250,000	1,000

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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Limits of Coverage	Carrier	Coverage	Deductible
Crime Coverage:	Somers Agency, Inc.		
Employee Dishonesty including Faithful			
Performance of Duty		\$100,000	\$1,000
Forgery or Alteration		100,000	1,000
Computer Fraud		100,000	1,000
Theft, Disappearance and Destruction		100,000	1,000

Settled claims did not exceed commercial coverage amounts during fiscal year 2012.

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**Note 6 – Defined Benefit Pension Plans**

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**School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

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, up to a statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2012, the allocation to pension and death benefits is 12.65 and 0.05 percent, respectively. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the fiscal year ended June 30, 2012 were \$5,200; 67% has been contributed for fiscal year 2012.

**State Teachers Retirement System**

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal years ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2012, was \$11,800; 74% has been contributed for fiscal year 2012.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, one member of the Board of Directors elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 7 – Post-Employment Benefits**

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**State Teachers Retirement System**

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan, which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll free (888) 227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. For the School, this amount equaled \$843 for fiscal year 2012, which was equal to the required allocation for the year.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**School Employees Retirement System**

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

**Medicare Part B Plan**

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2012, the actuarially required allocations were 0.75 percent, respectively. For the School, contributions for the fiscal year ended June 30, 2012 were \$279, which was equal to the required contributions for the year.

**Health Care Plan**

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e).

Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2012, the health care allocations were 0.55 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 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 2012, the minimum

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For the School, the amount assigned to health care, including the surcharge, during the 2012 fiscal year equaled \$204, which equaled the required allocation for 2012.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employer/Audit Resources*.

**Note 8 – Litigation**

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The School is not currently party to any legal proceedings which would have a material impact on the financial statements.

**Note 9 – Long-Term Obligations**

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Changes in long-term obligations of the School during fiscal year 2012 were as follows:

	<u>Balance Outstanding June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Outstanding June 30, 2012</u>	<u>Amount Due in One Year</u>
Compensated Absences	\$0	\$10,009	\$0	\$10,009	\$10,009

**Note 10 – Receivables**

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At June 30, 2012, the School had intergovernmental receivables of \$8,504 which are considered collectible within one year and are presented on the statement of net assets.

**Townsend Community School  
Erie County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**Note 11 – Other Purchased Services**

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During the fiscal year ended June 30, 2012, other purchased service expenses for services rendered by various vendors were as follows:

Professional & Technical Services	\$81,515
Payment to Sponsor	73,876
Property Services	4,713
Travel Mileage/Meeting Expense	9,228
Communications	115
Tuition	<u>40,958</u>
	<u><u>\$210,405</u></u>

**Note 11 – Sponsor Agreement**

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Margaretta Local School District, Erie County, Ohio (the District) sponsored the School in fiscal year 2012. The District receives 3% of the State Aide received by the School as set forth in the Shared Services Agreement. The school also entered into a lease agreement with the District for areas that housed the staff of the School. The first year generated approximately \$90,000 in revenue to the District. There is an expansion of students, leased area and services to be provided in fiscal year 2013.

**Note 12 – Operating Lease – Lessee Disclosure**

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The School is the lessee of property located in Castalia, Ohio. The lease is between the District and the Governing Authority of the School. The lease is \$500 per month, both payable in monthly installments on or before the last business day of the month. This lease agreement commenced on September 1, 2011 and expires on June 30, 2013.



# Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Townsend Community School, Erie County, Ohio (the School) as of and for the year ended June 30, 2012, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2013.

### ***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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial 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. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

Townsend Community School  
Erie County  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

November 7, 2013

**TOWNSEND COMMUNITY SCHOOL  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**Material Weakness – Financial Reporting**

The results of our procedures identified the following errors requiring adjustment to the financial statements:

- Omissions from the June 30, 2012 Accounts Payable listing in the amount of \$81,192; and
- Cash payments for contractual services in the amount of \$129,213 were incorrectly included as cash payments for material and supplies in the Statement of Cash Flows.

The accompanying financial statements have been adjusted to reflect these changes.

Sound financial reporting is the responsibility of the Treasurer and the Board of Directors and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

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

**Officials' Response:**

We did not receive a response from Officials to this finding.

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Townsend Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on April 12, 2012.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

Townsend Community School  
Erie County  
Independent Accountants' Report on Applying  
Agreed-Upon Procedures  
Page 2

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
- (11) Includes violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State

November 7, 2013



# Dave Yost • Auditor of State

TOWNSEND COMMUNITY SCHOOL

ERIE COUNTY

#### CLERK'S CERTIFICATION

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

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED  
NOVEMBER 26, 2013