



OHIO AUDITOR OF STATE
KEITH FABER



**OHIO VIRTUAL ACADEMY
LUCAS COUNTY
JUNE 30, 2020**

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OHIO VIRTUAL ACADEMY
LUCAS COUNTY
JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Ohio Virtual Academy
Lucas County
1690 Woodlands Drive, Suite 200
Maumee, Ohio 43537-4045

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Virtual Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy'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 Academy'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 Academy'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 the Academy, as of June 30, 2020, the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Academy. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2021, on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

May 21, 2021

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**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

The discussion and analysis of Ohio Virtual Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*" issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2020 are as follows:

- Total net position was (\$31,754,876) as of June 30, 2020, which is a \$2,644,181 decrease from net position of (\$29,110,695) at June 30, 2019.
- Due to a decrease in enrollment and a decrease in the State basic funding rate, total revenue decreased from \$102,457,029 in fiscal year 2019 to \$99,189,194 in fiscal year 2020.
- Total expenses increased from \$95,704,350 in 2019 to \$101,833,375 in 2020. The increase is due to an increase in pension and OPEB expense as a result of GASB 68 and GASB 75.
- Current assets decreased \$1,605,159 with current liabilities decreasing \$1,605,159 in 2020.
- Long-term liabilities increased \$10,433,221 as a result of an increase to the net pension liability and net OPEB liability in 2020. This is due to an increase in employer contributions made to the retirement systems.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the Statement of Net Position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - as reported in the Statement of Net Position - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the activities for the Academy, which encompass all the Academy's services, including instruction, support services and community services. Unrestricted State aid and State and Federal grants finance most of these activities.

Table 1 provides a summary of the Academy's net position for fiscal year 2020 and fiscal year 2019:

Table 1
Net Position

	2020	2019
Assets:		
Cash and Current Assets	\$ 8,739,561	\$ 10,344,720
Noncurrent Assets:		
Depreciable Capital Assets, Net	91,882	13,326
Net OPEB Asset	2,778,302	2,143,630
<i>Total Assets</i>	11,609,745	12,501,676
Deferred Outflows of Resources:		
Pension	15,992,741	11,662,037
OPEB	1,919,384	592,813
<i>Total Deferred Outflows of Resources</i>	17,912,125	12,254,850
Liabilities:		
Current Liabilities	8,489,561	10,094,720
Long-Term Liabilities		
Net Pension Liability	42,596,691	32,728,361
Net OPEB Liability	2,118,172	1,553,281
<i>Total Liabilities</i>	53,204,424	44,376,362
Deferred Inflows of Resources:		
Pension	3,865,207	6,058,326
OPEB	4,207,115	3,432,533
<i>Total Deferred Inflows of Resources</i>	8,072,322	9,490,859
Net Position:		
Net Investment in Capital Assets	91,882	13,326
Unrestricted (Deficit)	(31,846,758)	(29,124,021)
<i>Total Net Position (Deficit)</i>	\$ (31,754,876)	\$ (29,110,695)

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2020 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 Academy 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 Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)

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

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability (asset) to equal the Academy'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 Academy 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 Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for its proportionate share of each plan's *change* in net pension liability and net OPEB liability (asset), respectively, not accounted for as deferred inflows/outflows. As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. As a result of implementing GASB 75, the Academy is reporting a net OPEB liability, a net OPEB asset and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)

Cash and other current assets decreased by \$1,605,159 in 2020. This is related to a decrease in the amount due from the management company for a service credit (see Note 18). In addition, current liabilities decreased by \$1,605,159 from the prior fiscal year. This is related to a decrease in the amount due to the management company due to lower enrollment and the timing of cash payments.

Table 2 shows the changes in net position for fiscal year 2020 and fiscal year 2019, as well as a listing of revenues and expenses:

Table 2
Changes in Net Position

	2020	2019
Operating Revenues:		
Foundation	\$ 71,195,994	\$ 76,739,984
Special Education	15,714,807	15,956,415
Other Operating Revenue	13,773	24,462
Non-Operating Revenues:		
Grants and Program Initiatives	12,264,620	9,736,168
<i>Total Revenues</i>	99,189,194	102,457,029
Operating Expenses:		
Salaries	24,097,869	23,249,477
Fringe Benefits	11,501,617	1,954,455
Purchased Services	24,205,571	59,235,103
Materials and Supplies	41,888,547	11,176,911
Depreciation	11,212	1,245
Other Operating Expenses	128,559	87,159
<i>Total Operating Expenses</i>	101,833,375	95,704,350
 Total Increase (Decrease) in Net Position	 \$ (2,644,181)	 \$ 6,752,679

The revenue generated by a community school is almost entirely dependent on the per-pupil allotment given by the State foundation and from Federal entitlement programs.

For the Academy, the total revenue decreased 3% and total expenses increased 6% from fiscal year 2019 to fiscal year 2020. The decrease in foundation revenue is a result of decreased enrollment and a decrease in the FTE rate. The increase in expenses is due to an increase in pension and OPEB expense as a result of GASB 68 and GASB 75. Without the effects of GASB 68 and GASB 75, expenses decreased 3% due to decreased enrollment.

Special Education revenue is weighted based on the category of disability of the Special Education students enrolled in the Academy. The decrease of 2% in Special Education revenue is due to a decrease in Special Education students.

Non-operating revenue increased by 26% due to additional Federal funding received during fiscal year 2020 for COVID-19, Title I, and IDEA.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)

Capital Assets

At the end of fiscal year 2020, the Academy had \$91,882 net of depreciation invested in furniture and equipment. The overall increase in capital assets of \$78,556 is due to capital asset additions of \$89,768 exceeding depreciation expense of \$11,212 for fiscal year 2020.

Current Financial Related Activities

As a result of COVID-19, the Academy's enrollment increased by approximately 50% in FY21. Revenues increased as a result of the enrollment increase, as well as due to increased COVID-19 related Federal funding and an increase in the per-pupil amount of State foundation funding over FY20 (although the per-pupil amount was still less than the full per-pupil amount prior to State budget cuts). The enrollment increase also resulted in an increase to Academy expenses.

The Academy's financial outlook over the next several years should remain steady as enrollment is maintained. The management team and Board of Trustees intend to continue their good stewardship of public funds by keeping appropriate levels of working capital and net position.

Contacting the Academy's Financial Management

This financial report is designed to provide all stakeholders with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Kate Diu, School Treasurer, Ohio Virtual Academy, 1690 Woodlands Drive, Suite 200, Maumee, Ohio 43537.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2020

Assets

Current Assets:

Cash and Cash Equivalents	\$ 4,669,504
Prepaid Assets	1,547,036
Accounts Receivable	18,214
Intergovernmental Receivable	2,504,807
<i>Total Current Assets</i>	8,739,561

Noncurrent Assets:

Depreciable Capital Assets, Net	91,882
Net OPEB Asset	2,778,302
<i>Total Noncurrent Assets</i>	2,870,184

<i>Total Assets</i>	11,609,745
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Deferred Outflows of Resources

Pension	15,992,741
OPEB	1,919,384
<i>Total Deferred Outflows of Resources</i>	17,912,125

Liabilities

Current Liabilities:

Accounts Payable	3,291,355
Accrued Wages and Benefits	2,536,775
Intergovernmental Payable	2,636,431
Unearned Revenue	25,000
<i>Total Current Liabilities</i>	8,489,561

Long-Term Liabilities:

Net Pension Liability	42,596,691
Net OPEB Liability	2,118,172
<i>Total Long-Term Liabilities</i>	44,714,863

<i>Total Liabilities</i>	53,204,424
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Deferred Inflows of Resources

Pension	3,865,207
OPEB	4,207,115
<i>Total Deferred Inflows of Resources</i>	8,072,322

Net Position

Net Investment in Capital Assets	91,882
Unrestricted (Deficit)	(31,846,758)
<i>Total Net Position (Deficit)</i>	(\$31,754,876)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Operating Revenues	
Foundation Payments	\$71,195,994
Special Education	15,714,807
Other Revenues	<u>13,773</u>
<i>Total Operating Revenues</i>	<u>86,924,574</u>
Operating Expenses	
Salaries	24,097,869
Fringe Benefits	11,501,617
Purchased Services	24,205,571
Materials and Supplies	41,888,547
Depreciation	11,212
Other	<u>128,559</u>
<i>Total Operating Expenses</i>	<u>101,833,375</u>
<i>Operating Loss</i>	<u>(14,908,801)</u>
Non-Operating Revenues	
Grants Received - Federal	11,332,411
Grants Received - State and Local	<u>932,209</u>
<i>Total Non-Operating Revenues</i>	<u>12,264,620</u>
<i>Change in Net Position</i>	(2,644,181)
<i>Net Position (Deficit) Beginning of Year</i>	<u>(29,110,695)</u>
<i>Net Position (Deficit) End of Year</i>	<u><u>(\$31,754,876)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Increase in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Special Education	\$15,703,522
Cash Received from Others	13,773
Cash Received from Foundation Payments	73,317,218
Cash Payments to Suppliers for Goods and Services	(66,606,038)
Cash Payments to Employees for Services	(24,223,983)
Cash Payments for Employee Benefits	(8,839,696)
Cash Payments to Others	<u>(126,572)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(10,761,776)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Grants Received - Federal	10,136,342
Grants Received - State and Local	<u>957,209</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>11,093,551</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(89,768)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	242,007
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>4,427,497</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 4,669,504</u></u>

(Continued)

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

**Reconciliation of Operating Loss to Net
Cash Used for Operating Activities**

Operating Loss	(\$14,908,801)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	11,212
Changes in Assets, Deferred Inflows of Resources, Liabilities, and Deferred Outflows of Resources	
Decrease in Accounts Receivable	98,412
Decrease in Prepaid Items	2,801,599
Decrease in Intergovernmental Receivable	143,224
(Increase) in Net OPEB Asset	(634,672)
(Increase) in Deferred Outflows Related to Pension	(4,330,704)
(Increase) in Deferred Outflows Related to OPEB	(1,326,571)
(Decrease) in Accounts Payable	(3,374,746)
(Decrease) in Accrued Wages and Benefits	(41,110)
Increase in Intergovernmental Payable	1,785,697
Increase in Net Pension Liability	9,868,330
Increase in Net OPEB Liability	564,891
(Decrease) in Deferred Inflows Related to Pension	(2,193,119)
Increase in Deferred Inflows Related to OPEB	<u>774,582</u>
<i>Total Adjustments</i>	<u>4,147,025</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$10,761,776)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. DESCRIPTION OF THE ACADEMY

Ohio Virtual Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy offers home-based public education for Ohio children in grades K-12. Parents, community leaders, and educators are working with the Academy to help provide an excellent education option. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (formerly known as the University of Toledo Charter School Council) (the Sponsor) for a period of ten academic years commencing on July 1, 2007. The contract was amended to change the expiration date to June 30, 2015, and a new contract was executed for a period of ten academic years commencing July 1, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (see Note 17).

The Academy operates under the direction of a 12 member Board of Trustees. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board oversees the Academy's instructional/support staff of 90 administrative and 498 certificated teaching and other personnel who provide services to approximately 13,321 students.

The Academy contracts with K12 Inc. for a variety of services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment for teachers and students (see Notes 15 and 16).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Academy'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 Academy are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Academy. For the Academy, this includes general operations of the Academy. Component units are legally separate organizations for which the Academy is financially accountable. The Academy is financially accountable for an organization if the Academy appoints a voting majority of the organization's governing board and (1) the Academy is able to significantly influence the programs or services performed or provided by the organization; or (2) the Academy is legally entitled to or can otherwise access the organization's resources; the Academy is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the Academy is obligated for the debt of the organization.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Component units may also include organizations that are fiscally dependent on the Academy in that the Academy 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 Academy (the primary government). The Academy has no component units.

B. Basis of Presentation

The Academy 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 Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as nonoperating.

C. Measurement Focus and Basis of Accounting

Enterprise 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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 used 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 represent 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 Academy, deferred outflows of resources have been reported on the Statement of Net Position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

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 Academy, deferred inflows of resources have been reported on the Statement of Net Position for pension and OPEB (see Notes 9 and 10).

E. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction. In addition, the Sponsor does prescribe an annual budget requirement in addition to preparing the five year spending plan which is to be updated on an annual basis.

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F. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account.

G. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of over \$1,000 for all assets, except leased assets. Leased assets with a purchase price of \$5,000 or less will not be 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. Depreciation of capital assets is computed using the straight-line method and the Academy utilizes the useful lives established by the IRS.

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. For the fiscal year ended June 30, 2020 State Foundation Program revenue was \$71,195,994 and revenue from the Special Education Program was \$15,714,807.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met and they are earned and measurable.

Eligibility requirements include 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in various State and Federal operating grants. Grants awarded in 2020 included the following: IDEA: \$3,269,982, IDEA Restoration: \$75,112, Title I: \$5,156,593, Title IIA: \$1,388,592, Title III: \$3,297, Title IV-A: \$356,600, Early Childhood Special Education: \$10,569, Preschool Restoration: \$14,855, and Elementary and Secondary School Emergency Relief (ESSER): \$1,056,811.

Amounts awarded under the above named programs for the 2020 year totaled \$98,243,212.

I. Accrued Liabilities

The Academy has recognized certain liabilities on its Statement of Net Position relating to expenses which are due but unpaid as of June 30, 2020 including: accounts and intergovernmental payables and accrued wages and benefits.

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

K. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB asset, net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. 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. 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.

M. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2020 are recorded as prepaid items using the consumption method. A current asset for the prepaid amounts is recorded at the time of the payment by the Academy and the expense is recorded when used. Prepayments at June 30, 2020 consist primarily of management and technology fees.

3. DEPOSITS

At June 30, 2020, the carrying amount of the Academy's deposits totaled \$4,669,504 and its bank balance was \$4,724,494. Based on the criteria described in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure*", as of June 30, 2020, \$4,224,494 of the bank balance was exposed to custodial credit risk as discussed below, while \$500,000 was covered by the Federal Depository Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy has no deposit policy for custodial risk.

**OHIO VIRTUAL ACADEMY
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4. RECEIVABLES

Receivables at June 30, 2020 mostly consisted of Federal grant revenues receivable which are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of Federal funds. These receivables are expected to be collected in the subsequent year. Receivables are listed as follows:

Program	Amount
ESSER	\$ 1,056,811
Title I	736,062
IDEA	463,006
Title II-A	196,615
Title IV-A	50,492
IDEA - ECSE	1,496
IDEA Restoration	325
<i>Total Intergovernmental Receivable</i>	<i>2,504,807</i>
Other Receivables	18,214
<i>Total Receivables</i>	<i>\$ 2,523,021</i>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020:

	Balance 6/30/2019	Additions	Deletions	Balance 6/30/2020
Furniture, Fixtures and Equipment	\$ 73,200	\$ 89,768	\$ -	\$ 162,968
Less: Accumulated Depreciation	(59,874)	(11,212)	-	(71,086)
Capital Assets, Net	\$ 13,326	\$ 78,556	\$ -	\$ 91,882

6. LONG-TERM OBLIGATIONS

The changes in the Academy's long-term obligations during the year consist of the following:

	Balance 6/30/2019	Additions	Deductions	Balance 6/30/2020	Due Within One Year
Net Pension Liability:					
STRS	\$ 29,332,047	\$ 7,764,320	\$ -	\$ 37,096,367	\$ -
SERS	3,396,314	2,104,010	-	5,500,324	-
Total Net Pension Liability	32,728,361	9,868,330	-	42,596,691	-
Net OPEB Liability:					
SERS	1,553,281	564,891	-	2,118,172	-
Total Long-Term Obligations	\$ 34,281,642	\$ 10,433,221	\$ -	\$ 44,714,863	\$ -

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There is no repayment schedule for the net pension liability and net OPEB liability. For additional information related to the net pension liability and net OPEB liability see Notes 9 and 10.

7. INSTRUCTION

Approximately 86 percent of operating expenditures are used to provide direct instruction to students. Costs by various categories are as follows:

Service Type	Amount
Teacher Salaries, Benefits and Expenses	\$ 39,705,434
Instructional Materials Expense	31,302,267
Pupil Support Salaries, Benefits and Expenses	7,743,627
Student Computers, Internet and Technology	4,697,925
Special Education Services	3,588,263
Web Based Software - Curriculum	148,654
<i>Total</i>	\$ 87,186,170

8. RISK MANAGEMENT

A. Property and Liability

The Academy 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. For the fiscal year ended June 30, 2020, the Academy obtained insurance through broker USI Insurance Services, LLC with the following insurance coverage:

Commercial General Liability per Occurrence	\$1,000,000
Commercial General Liability Aggregate	2,000,000
 Umbrella Liability per Occurrence	 10,000,000
Umbrella Liability Aggregate	10,000,000

Settled claims have not exceeded these coverages in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

B. Workers' Compensation

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

C. Employee Medical, Dental, Vision, Prescription and Life Benefits

The Academy is self-insured for employee health care benefits, including prescription drug coverage, for all of its employees. The health care benefits program is administered by United Health Group, Inc., which provides claims review and processing services. The self-insurance program is reported in the schoolwide pool. The Academy purchases stop loss coverage; therefore, the Academy is not responsible for claims within the plan's limits that exceed \$75,000 per participant.

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The liability for unpaid claims of \$638,731 included in Accrued Wages and Benefits and reported in the schoolwide pool at June 30, 2020 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Estimates were calculated based upon an independent actuarial evaluation of claims payable. The Academy's claims are paid by United Health Group, Inc. The Academy reimburses United Health Group for the expenses and allocates costs among funds based on claims approved by the claims administrator. For the year ending June 30, 2020, claims reported but unpaid were \$86,731 and the incurred but not reported claims were determined to be \$552,000.

Changes in the claims liability amount in 2020 and 2019 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Fiscal Year Liability
2020	\$ 561,777	\$ 4,340,243	\$ 4,263,289	\$ 638,731
2019	380,740	4,383,909	4,202,872	561,777

The Academy has contracted with private carriers to provide dental, vision, and life insurance to its employees.

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 Academy'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 Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy 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.

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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.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The Academy's 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	Age 65 with 5 years of service credit; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0%.

The Academy's contractually required contribution to SERS was \$460,095 for fiscal year 2020. Of this amount \$0 was recorded as an intergovernmental payable.

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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 East Broad Street, Columbus, Ohio 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% 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 28 years of service, or 33 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2020, plan members were required to contribute 14% of their annual covered salary. The Academy was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

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The Academy's contractually required contribution to STRS was \$2,899,102 for fiscal year 2020. Of this amount, \$287,449 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.05930161%	0.13340174%	
Proportion of the net pension liability current measurement date	<u>0.09192985%</u>	<u>0.16774757%</u>	
Change in proportionate share	<u>0.03262824%</u>	<u>0.03434583%</u>	
Proportionate share of the net pension liability	\$ 5,500,324	\$ 37,096,367	\$ 42,596,691
Pension expense	\$ 1,678,382	\$ 5,025,322	\$ 6,703,704

At June 30, 2020, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 139,474	\$ 302,027	\$ 441,501
Changes of assumptions	-	4,357,686	4,357,686
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	1,175,811	6,658,546	7,834,357
Contributions subsequent to the measurement date	<u>460,095</u>	<u>2,899,102</u>	<u>3,359,197</u>
Total deferred outflows of resources	<u>\$ 1,775,380</u>	<u>\$ 14,217,361</u>	<u>\$ 15,992,741</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 160,584	\$ 160,584
Net difference between projected and actual earnings on pension plan investments	70,603	1,813,066	1,883,669
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>77,775</u>	<u>1,743,179</u>	<u>1,820,954</u>
Total deferred inflows of resources	<u>\$ 148,378</u>	<u>\$ 3,716,829</u>	<u>\$ 3,865,207</u>

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\$3,359,197 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

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:			
2021	\$ 904,213	\$ 2,769,152	\$ 3,673,365
2022	227,353	1,791,724	2,019,077
2023	(4,698)	1,531,006	1,526,308
2024	40,039	1,509,548	1,549,587
Total	\$ 1,166,907	\$ 7,601,430	\$ 8,768,337

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

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

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For 2019, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset 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	<u>100.00 %</u>	

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

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

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net pension liability	\$ 7,707,921	\$ 5,500,324	\$ 3,648,978

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Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below:

	July 1, 2019
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.00%

For the July 1, 2019, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**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.

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Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2019. 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, 2019.

Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net pension liability	\$ 54,212,208	\$ 37,096,367	\$ 22,606,931

10. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to post-employment 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 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Academy's surcharge obligation was \$3,806.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$3,806 for fiscal year 2020 and is reported as an 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, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability/asset was measured as of June 30, 2019, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability/asset was based on the Academy'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.05598880%	0.13340174%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.08422859%</u>	<u>0.16774757%</u>	
Change in proportionate share	<u>0.02823979%</u>	<u>0.03434583%</u>	
Proportionate share of the net OPEB liability	\$ 2,118,172	\$ -	\$ 2,118,172
Proportionate share of the net OPEB asset	\$ -	\$ (2,778,302)	\$ (2,778,302)
OPEB expense	\$ 190,020	\$ (807,984)	\$ (617,964)

At June 30, 2020, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 31,092	\$ 251,873	\$ 282,965
Net difference between projected and actual earnings on OPEB plan investments	5,083	-	5,083
Changes of assumptions	154,709	58,399	213,108
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	867,236	547,186	1,414,422
Contributions subsequent to the measurement date	<u>3,806</u>	<u>-</u>	<u>3,806</u>
Total deferred outflows of resources	<u>\$ 1,061,926</u>	<u>\$ 857,458</u>	<u>\$ 1,919,384</u>

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 465,348	\$ 141,350	\$ 606,698
Net difference between projected and actual earnings on OPEB plan investments	-	174,496	174,496
Changes of assumptions	118,696	3,046,086	3,164,782
Difference between employer contributions and proportionate share of contributions/change in proportionate share	<u>34,384</u>	<u>226,755</u>	<u>261,139</u>
Total deferred inflows of resources	<u>\$ 618,428</u>	<u>\$ 3,588,687</u>	<u>\$ 4,207,115</u>

\$3,806 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2021. 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:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2021	\$ 10,916	\$ (620,582)	\$ (609,666)
2022	104,367	(620,582)	(516,215)
2023	105,856	(550,646)	(444,790)
2024	105,616	(526,117)	(420,501)
2025	81,360	(454,269)	(372,909)
Thereafter	<u>31,577</u>	<u>40,967</u>	<u>72,544</u>
Total	<u>\$ 439,692</u>	<u>\$ (2,731,229)</u>	<u>\$ (2,291,537)</u>

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.

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Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019 are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.13%
Prior measurement date	3.62%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.22%
Prior measurement date	3.70%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

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

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 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 3.13%, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.62% was used as of June 30, 2018. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Academy'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 (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 2,571,059	\$ 2,118,172	\$ 1,758,074
	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 1,697,085	\$ 2,118,172	\$ 2,676,852

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Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, compared with July 1, 2018, are presented below:

	July 1, 2019		July 1, 2018	
	Initial	Ultimate	Initial	Ultimate
Inflation	2.50%		2.50%	
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65	
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation	
Payroll increases	3.00%		3.00%	
Cost-of-living adjustments (COLA)	0.00%		0.00%	
Discounted rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
	Initial	Ultimate	Initial	Ultimate
Medical				
Pre-Medicare	5.87%	4.00%	6.00%	4.00%
Medicare	4.93%	4.00%	5.00%	4.00%
Prescription Drug				
Pre-Medicare	7.73%	4.00%	8.00%	4.00%
Medicare	9.62%	4.00%	-5.23%	4.00%

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

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

Actuarial assumptions used in the June 30, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - There were no changes in assumptions since the prior measurement date of June 30, 2018.

Benefit Term Changes Since the Prior Measurement Date - There was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944% to 1.984% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

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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:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long-Term Expected Real Rate of Return **</u>
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	<u>100.00 %</u>	

* Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**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.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2019.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	Academy's proportionate share of the net OPEB asset	\$ 2,370,728	\$ 2,778,302

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
	Academy's proportionate share of the net OPEB asset	\$ 3,150,467	\$ 2,778,302

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11. CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions as specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2020.

B. State 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 did not perform such a review on the Academy for fiscal year 2020.

ODE has made adjustments based on attendance adjustments reported by the Academy totaling \$1,966,716 which is included in intergovernmental payable. Final adjustments have been made and an immaterial receivable is due from ODE.

In addition, the Academy's contracts with its Sponsor and Management Company require payment based on revenues received from the State. Additional reconciliation necessary with these contracts has been reflected in the fiscal year 2020 financial statements

12. OPERATING LEASES

The Academy leases an office facility and testing/teaching facility under operating leases. The terms of these leases extend through June 30, 2025. Total lease payments were \$197,836 for the year ended June 30, 2020. The future minimum lease payments, excluding taxes and common area operating expenses, for these leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 233,513
2022	251,774
2023	272,157
2024	283,043
2025	<u>293,309</u>
<i>Total Minimum Lease Payments</i>	<u><u>\$ 1,333,796</u></u>

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13. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2020, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Service Type</u>	<u>Amount</u>
Professional/Technical Services	\$ 21,279,039
Communications	1,257,117
Property Services	596,770
Tuition	505,000
Travel	507,167
Contracted Trade Services	55,827
Utilities	4,651
<i>Total</i>	<u>\$ 24,205,571</u>

14. TAX EXEMPT STATUS

The Academy was approved for tax exempt status under § 501(c)(3) of the Internal Revenue Code.

15. MANAGEMENT AGREEMENT

The Academy entered into a ten-year contract, effective July 1, 2007 through June 30, 2017, with K12 Inc. for educational, administrative and technology services. The Academy entered into a new five-year contract with K12 effective July 1, 2017 through June 30, 2022. Per the management agreement, K12 Inc. is entitled to 12 percent of revenues as an administrative fee (management) and 7 percent of revenues as a technology fee. These fees are reduced to 11% and 6% when funded FTE reaches 10,000 and are reduced to 10% and 5% at 15,000 FTE. The educational services are purchased at the prevailing rate charged by K12 Inc. to its partner schools. Terms of the contract require K12 Inc. to provide the following:

A. Administrative services:

- Personnel and facility management
- Administration of all business aspects and day-to-day management of the Academy
- Budgeting and financial reporting and the annual reports
- Maintenance of financial and student records
- Pupil recruitment, admissions and student discipline
- Rules and procedures and nondiscrimination requirements
- Public relations

B. Technology services:

- Integrate technology and data systems with Academy's curriculum
- Monitor and analyze data, as necessary
- Report on pupils' academic performance
- Seek and secure competitive pricing and discounts for Academy, as available
- Provide training to staff, parents, and students as deemed necessary
- Develop, design, publish and maintain the Academy's interactive website
- Supervise installation of Academy's internal computer and telephone network
- Negotiate contracts with computer, printer, student information system, software and office set-up vendors
- Determine hardware configurations for the Academy's technology needs
- Support administrators in troubleshooting system errors

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- C. Educational services:
- Curriculum
 - Instructional tools
 - Additional educational services

As of June 30, 2020, payments to K12 Inc. totaled \$57,522,116 with \$2,012,008 still outstanding for all services as of June 30, 2020. The breakdown is as follows:

<u>Service Type</u>	<u>Amount</u>
Web Based Software - Curriculum	\$ 22,492,703
Management	9,401,355
Instructional Materials Usage	9,399,651
Student Computers - Lease	8,483,954
Technology Services Fees	7,740,094
Teacher Instructional Materials	4,359
<i>Total</i>	<u><u>\$ 57,522,116</u></u>

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**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

16. K12 INC. MANAGEMENT COMPANY DISCLOSURE

For the fiscal year ended June 30, 2020, K12 Inc. incurred the following expenses in support of the Academy:

Direct Expenses (Object Code)	Regular Instruction (1100 Function) Codes)	Special Instruction (1200 Function) Codes)	Support Services (2000 Function) Codes)	Non-Instructional (3000 through 7000 Function) Codes)	Total
Salaries and Wages (100)	\$ -	\$ -	\$ 11,762,808	\$ -	\$ 11,762,808
Employees' Benefits (200)	-	-	2,059,982	-	2,059,982
Professional & Technical Services (410)	-	-	3,640,472	-	3,640,472
Property Services (420)	-	-	188,296	-	188,296
Travel (430)	-	-	287,381	-	287,381
Communications (440)	-	-	6,159,868	-	6,159,868
Contracted Craft or Trade Services (460)	-	-	171,885	-	171,885
Other Purchased Services (490)	-	-	486,757	-	486,757
Books, Periodicals, & Films (520, 530, 540)	3,958,083	819,798	-	-	4,777,881
Other Supplies (510, 550, 570, 580, 590)	-	-	1,952,681	-	1,952,681
Depreciation	-	-	-	2,726,687	2,726,687
Interest (820)	-	-	-	245,769	245,769
Dues and Fees (840)	-	-	1,446,545	-	1,446,545
Other Direct Costs (all other object codes)	-	-	1,763,193	-	1,763,193
Total Allocated Direct Expenses	3,958,083	819,798	29,919,868	2,972,456	37,670,205
Overhead	-	-	16,636,108	-	16,636,108
Total Direct Expenses and Overhead	\$ 3,958,083	\$ 819,798	\$ 46,555,976	\$ 2,972,456	\$ 54,306,313

Overhead expenses were allocated to the Academy based on the ratio of revenue earned from the Academy to total revenue from all schools managed by K12 Inc.

17. SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of ten academic years commencing on July 1, 2015. As part of this contract, the Sponsor is paid an oversight fee which is 1.5 percent of the total State Foundation funds received during the year. The total amount of Sponsor fees for fiscal year 2020 was \$1,295,173.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

18. RESERVE FUND

The Academy and K12 Inc. agreed the Academy will maintain a \$250,000 reserve (Reserve Fund). The Reserve Fund is defined as total net position at fiscal year-end, excluding net investment in capital assets as stated in the audited financial statements, before the effects of GASB 68 and GASB 75. At the end of the year, if necessary based on the Academy's audited financial statements, K12 will issue Service Credits in an amount sufficient to satisfy the Reserve Fund requirement.

At the end of the next fiscal year, if the Academy has surplus funds that exceed the Reserve Fund, the Academy will repay a portion or all of the prior years' Service Credit depending on the amount of the surplus. If the Academy has no surplus or less than the amount credited prior, there is no further obligation owed on the unpaid amounts on the prior credits given.

For the year ended June 30, 2020 a Service Credit of \$2,751,491 was issued.

19. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2020, the Academy has implemented GASB Statement No. 84, "Fiduciary Activities" and GASB Statement No. 90, "Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61".

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The implementation of GASB Statement No. 84 did not have an effect on the financial statements of the Academy.

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the Academy.

20. COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Academy. The investments of the pension and other employee benefit plan in which the Academy participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Academy's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST SEVEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's Proportion of the Net Pension Liability	0.09192985%	0.05930161%	0.05054962%	0.05682862%
Academy's Proportionate Share of the Net Pension Liability	\$ 5,500,324	\$ 3,396,313	\$ 3,020,228	\$ 4,159,331
Academy's Covered Payroll	\$ 3,134,721	\$ 1,989,999	\$ 1,694,796	\$ 1,796,282
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.46%	170.67%	178.21%	231.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.85%	71.36%	69.50%	62.98%

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.05577984%	0.06354201%	0.06354201%
Academy's Proportionate Share of the Net Pension Liability	\$ 3,182,852	\$ 3,215,825	\$ 3,778,640
Academy's Covered Payroll	\$ 1,669,297	\$ 1,798,602	\$ 1,576,507
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	190.67%	178.80%	239.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. The Academy will continue to present information for years available until a full ten-year trend is compiled.

Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST SEVEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's Proportion of the Net Pension Liability	0.16774757%	0.13340174%	0.12163885%	0.12905882%
Academy's Proportionate Share of the Net Pension Liability	\$ 37,096,367	\$ 29,332,048	\$ 28,895,570	\$ 43,199,877
Academy's Covered Payroll	\$ 19,973,874	\$ 15,290,079	\$ 13,383,552	\$ 13,540,364
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	185.72%	191.84%	215.90%	319.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.40%	77.31%	75.30%	66.80%

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.14443579%	0.15752981%	0.15752981%
Academy's Proportionate Share of the Net Pension Liability	\$ 39,917,828	\$ 38,316,702	\$ 45,642,604
Academy's Covered Payroll	\$ 15,087,469	\$ 15,481,520	\$ 15,501,192
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	264.58%	247.50%	294.45%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. The Academy will continue to present information for years available until a full ten-year trend is compiled.

Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - PENSION
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 460,095	\$ 425,751	\$ 257,644	\$ 237,271	\$ 247,084
Contributions in Relation to the Contractually Required Contribution	<u>(460,095)</u>	<u>(425,751)</u>	<u>(257,644)</u>	<u>(237,271)</u>	<u>(247,084)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 3,286,393	\$ 3,134,721	\$ 1,989,999	\$ 1,694,796	\$ 1,796,282
Contributions as a Percentage of Covered Payroll	14.00%	13.59%	12.95%	14.00%	13.76%

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 221,327	\$ 255,912	\$ 220,711	\$ 195,015	\$ 138,484
Contributions in Relation to the Contractually Required Contribution	<u>(221,327)</u>	<u>(255,912)</u>	<u>(220,711)</u>	<u>(195,015)</u>	<u>(138,484)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 1,669,297	\$ 1,798,602	\$ 1,576,507	\$ 1,417,868	\$ 1,151,719
Contributions as a Percentage of Covered Payroll	13.26%	14.23%	14.00%	13.75%	12.02%

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - PENSION
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 2,899,102	\$ 2,757,190	\$ 2,123,174	\$ 1,872,178	\$ 1,901,125
Contributions in Relation to the Contractually Required Contribution	<u>(2,899,102)</u>	<u>(2,757,190)</u>	<u>(2,123,174)</u>	<u>(1,872,178)</u>	<u>(1,901,125)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 20,707,871	\$ 19,973,874	\$ 15,290,079	\$ 13,383,552	\$ 13,540,364
Contributions as a Percentage of Covered Payroll	14.00%	13.81%	13.89%	13.99%	14.00%

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 2,109,724	\$ 2,092,375	\$ 2,170,167	\$ 1,762,815	\$ 1,605,932
Contributions in Relation to the Contractually Required Contribution	<u>(2,109,724)</u>	<u>(2,092,375)</u>	<u>(2,170,167)</u>	<u>(1,762,815)</u>	<u>(1,605,932)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 15,087,469	\$ 15,481,520	\$ 15,501,192	\$ 12,739,963	\$ 11,515,097
Contributions as a Percentage of Covered Payroll	13.98%	13.52%	14.00%	13.84%	13.95%

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's Proportion of the Net OPEB Liability	0.08422859%	0.05598880%	0.04631158%	0.05227967%
Academy's Proportionate Share of the Net OPEB Liability	\$ 2,118,172	\$ 1,553,281	\$ 1,242,881	\$ 1,490,164
Academy's Covered Payroll	\$ 3,134,721	\$ 1,989,999	\$ 1,694,796	\$ 1,796,282
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	67.57%	78.06%	62.46%	82.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	15.57%	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available. The Academy will continue to present information for years available until a full ten-year trend is compiled.

Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY (ASSET)
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's Proportion of the Net OPEB Liability (Asset)	0.16774757%	0.13340174%	0.12163885%	0.12905882%
Academy's Proportionate Share of the Net OPEB Liability (Asset)	\$ (2,778,302)	\$ (2,143,630)	\$ 4,745,899	\$ 6,902,099
Academy's Covered Payroll	\$ 19,973,874	\$ 15,290,079	\$ 13,383,552	\$ 13,540,364
Academy's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	13.91%	14.02%	35.46%	50.97%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	174.70%	176.00%	47.10%	37.00%

(1) Information prior to 2017 is not available. The Academy will continue to present information for years available until a full ten-year trend is compiled.

Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - OPEB
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 3,806	\$ 20,400	\$ 21,258	\$ 2,184	\$ 3,672
Contributions in Relation to the Contractually Required Contribution	<u>(3,806)</u>	<u>(20,400)</u>	<u>(21,258)</u>	<u>(2,184)</u>	<u>(3,672)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 3,286,393	\$ 3,134,721	\$ 1,989,999	\$ 1,694,796	\$ 1,796,282
Contributions as a Percentage of Covered Payroll	0.12%	0.65%	1.07%	0.13%	0.20%

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 15,084	\$ 4,476	\$ 11,003	\$ 50,493	\$ 42,155
Contributions in Relation to the Contractually Required Contribution	<u>(15,084)</u>	<u>(4,476)</u>	<u>(11,003)</u>	<u>(50,493)</u>	<u>(42,155)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 1,669,297	\$ 1,798,602	\$ 1,576,507	\$ 1,417,868	\$ 1,151,719
Contributions as a Percentage of Covered Payroll	0.90%	0.25%	0.70%	3.56%	3.66%

(1) Includes surcharge.

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - OPEB
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 20,707,871	\$ 19,973,874	\$ 15,290,079	\$ 13,383,552	\$ 13,540,364
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ -	\$ 154,815	\$ 155,012	\$ 127,400	\$ 115,151
Contributions in Relation to the Contractually Required Contribution	-	(154,815)	(155,012)	(127,400)	(115,151)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 15,087,469	\$ 15,481,520	\$ 15,501,192	\$ 12,739,963	\$ 11,515,097
Contributions as a Percentage of Covered Payroll	0.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE A – SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO - PENSION

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal years 2019-2020.

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 RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2020.

NOTE B – STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO - PENSION

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation, (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2019-2020.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE C – SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO – OPEB

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rates for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%. For fiscal year 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate decreased from 3.70% to 3.22%, (b) the health care cost trend rates for Medicare were changed from a range of 5.375%-4.75% to a range of 5.25%-4.75% and Pre-Medicare were changed from a range of 7.25%-4.75% to a range of 7.00%-4.75%, (c) the municipal bond index rate decreased from 3.62% to 3.13% and (d) the single equivalent interest rate, net of plan investment expense, including price inflation decreased from 3.70% to 3.22%.

NOTE D – STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO – OPEB

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. For fiscal year 2020, STRS increased the subsidy percentage from 1.944% to 1.984% effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*"; (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage was decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*" and (b) decrease in trend rates from 6.00%-11.00% initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate. For fiscal year 2020, health care cost trend rates were changed to the following: Medical Pre-Medicare from 6.00% initial; 4.00% ultimate down to 5.87% initial; 4.00% ultimate; Medical Medicare from 5.00% initial; 4.00% ultimate down to 4.93% initial; 4.00% ultimate; Prescription Drug Pre-Medicare from 8.00% initial; 4.00% ultimate down to 7.73% initial; 4.00% ultimate and (5.23%) initial; 4.00% ultimate up to 9.62% initial; 4.00% ultimate.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
<u>Special Education Cluster (IDEA):</u>		
Special Education - Grant to States	84.027	\$ 3,429,872
Special Education - Preschool Grants	84.173	25,698
Total Special Education Cluster (IDEA)		<u>3,455,570</u>
Title I Grants to Local Educational Agencies	84.010	5,289,129
English Language Acquisition State Grants	84.365	4,808
Supporting Effective Instruction State Grants	84.367	1,424,593
Student Support and Academic Enrichment Program	84.424	365,845
COVID 19 Education Stabilization Fund - Elementary and Secondary School Emergency Relief Fund	84.425D	<u>1,056,811</u>
Total U.S. Department of Education		<u>11,596,756</u>
Total Expenditures of Federal Awards		<u>\$ 11,596,756</u>

The accompanying notes are an integral part of this schedule.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Ohio Virtual Academy, Lucas County, Ohio (the Academy) under programs of the federal government for the year ended June 30, 2020. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Academy, it is not intended to and does not present the financial position, change in net position, or cash flows of the Academy.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The Academy has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The Academy transferred the following amounts from 2020 to 2021 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 5,556
Special Education - Grants to States	84.027	\$ 34,218
Special Education - Preschool Grants	84.173	\$ 197



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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**

Ohio Virtual Academy
Lucas County
1690 Woodlands Drive, Suite 200
Maumee, Ohio 43537-4045

To the Board of Trustees:

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 Ohio Virtual Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 21, 2021, wherein we noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Academy.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing 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 Academy'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 Academy'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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 financial statement. 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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 21, 2021



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Ohio Virtual Academy
Lucas County
1690 Woodlands Drive, Suite 200
Maumee, Ohio 43537-4045

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Ohio Virtual Academy, Lucas County, Ohio's (the Academy) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Ohio Virtual Academy's major federal programs for the year ended June 30, 2020. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Academy's major federal programs.

Management's Responsibility

The Academy's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Academy's compliance for each of the Academy's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the Academy's major programs. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Ohio Virtual Academy complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 21, 2021

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2020**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA #84.010 Education Stabilization Fund - Elementary and Secondary School Emergency Relief Fund CFDA #84.425D
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2020

Finding Number	Finding Summary	Status	Additional Information
2019-001	Significant deficiency for errors in financial reporting.	Corrective action taken and finding is fully corrected.	

OHIO AUDITOR OF STATE KEITH FABER



OHIO VIRTUAL ACADEMY

LUCAS COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 6/8/2021

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This report is a matter of public record and is available online at
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