

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**



Rea & associates

www.reacpa.com

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Trustees
Ohio Digital Learning School
1745 Indian Wood Circle
Maumee, Ohio 43537

We have reviewed the *Independent Auditor's Report* of the Ohio Digital Learning School, Lucas County, prepared by Rea & Associates, Inc., for the audit period July 1, 2020 through June 30, 2021. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Digital Learning School is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 11, 2022

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Ohio Digital Learning School
Lucas County, Ohio
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June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ohio Digital Learning School
Lucas County, Ohio
1745 Indian Wood Circle
Maumee, Ohio 43537

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Digital Learning School, Lucas County, Ohio, (the "School") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Digital Learning School, Lucas County, Ohio, as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis and pension and other post-employment schedules*, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2022 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
March 11, 2022

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**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(UNAUDITED)**

The discussion and analysis of Ohio Digital Learning School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to look at the School'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 School'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*". 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 2021 are as follows:

- Total net position was (\$553,509) as of June 30, 2021, which is a \$679,485 decrease from net position of \$125,976 at June 30, 2020. The decrease is a result of reporting the net pension/OPEB liability and related deferred inflows/outflows of resources in accordance with GASB Statements No. 68 and 75.
- The School had operating revenues of \$2,982,136, operating expenses of \$3,979,320, and non-operating revenues of \$317,699. The operating loss was \$997,184 during the School's second year of operations.
- Current assets increased \$619,629 with current liabilities increasing by the same amount in 2021.
- Deferred outflows of resources, long-term liabilities, and deferred inflows of resources increased as a result of GASB Statements No. 68 and 75.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's net pension liability and net OPEB liability/asset. 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 School as a Whole

One of the most important questions asked about the School is, "As a whole, what is the School'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 School's financial statements, report information on the School 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 School'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 School's financial health or financial position. Over time, increases or decreases in the School'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 School's operating results. However, the School'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 School, to assess the overall health of the School.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(UNAUDITED)

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

Table 1 provides a summary of the School's net position for fiscal year 2021 and fiscal year 2020.

Table 1
Net Position

	2021	2020
Assets:		
Cash and Current Assets	\$ 3,155,723	\$ 2,536,094
Noncurrent Assets:		
Net OPEB Asset	84,233	-
<i>Total Assets</i>	3,239,956	2,536,094
Deferred Outflows of Resources:		
Pension	1,741,728	96,340
OPEB	443,611	19,636
<i>Total Deferred Outflows of Resources</i>	2,185,339	115,976
Liabilities:		
Current Liabilities	3,145,723	2,526,094
Long-Term Liabilities		
Net Pension Liability	2,234,161	-
Net OPEB Liability	322,557	-
<i>Total Liabilities</i>	5,702,441	2,526,094
Deferred Inflows of Resources:		
Pension	7,416	-
OPEB	268,947	-
<i>Total Liabilities</i>	276,363	-
Net Position:		
Unrestricted	(553,509)	125,976
<i>Total Net Position</i>	\$ (553,509)	\$ 125,976

Current assets include cash and cash equivalents, prepaid assets, accounts receivable, and intergovernmental receivables. Accounts receivable includes an amount due from K12, for a Balanced Budget Credit of \$2,114,584 (see Note 16). The increase in current assets were due to increases in cash and accounts receivable due to increased enrollment.

Long-term assets include the net OPEB asset from STRS (see Note 8).

Current liabilities include accounts payable, accrued wages and benefits, intergovernmental payable, and unearned revenue. Accounts payable includes \$2,716,280 due to K12 for administrative services, technology services, and educational products and services. The increase in current liabilities is also due to increased enrollment.

Long-term liabilities include net pension and net OPEB liabilities (see Notes 7 and 8).

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(UNAUDITED)

Deferred outflows of resources and deferred inflows of resources related to pension and OPEB contributions to the retirement systems totaled \$2,185,339 and \$276,363 at fiscal year-end, which increased from 2020 due to GASB Statements No. 68 and 75.

Table 2 shows the changes in net position for fiscal year 2021 and fiscal year 2020, as well as a listing of revenues and expenses:

Table 2
Changes in Net Position

	2021	2020
Operating Revenues:		
Foundation	\$ 2,504,698	\$ 1,459,609
Special Education	477,072	227,577
Other Operating Revenue	366	351
Non-Operating Revenue		
Grants - Federal, State, and Local	317,699	7,024
<i>Total Revenues</i>	3,299,835	1,694,561
Operating Expenses:		
Salaries	1,437,818	809,057
Fringe Benefits	1,317,194	176,335
Purchased Services	366,877	322,864
Materials and Supplies	701,151	138,698
Other Operating Expenses	156,280	131,631
<i>Total Operating Expenses</i>	3,979,320	1,578,585
 Total Increase (Decrease) in Net Position	 \$ (679,485)	 \$ 115,976

The revenue generated by a community school is almost entirely dependent on the per-pupil allotment given by the State foundation and other State and local grant programs. The School provided services to approximately 245 students in its first year of operation and approximately 417 students in 2021. Foundation revenue was 76% of total revenues for 2021. Special Education revenue is weighted based on the category of disability of the Special Education students enrolled in the School. Non-operating revenue during the fiscal year included casino revenue from the State and Federal and State grant funding.

The School contracted with K12 to provide administrative services, technology services, and educational programs and services, as described in Note 13.

Debt

The School had no debt obligations outstanding at June 30, 2021 or June 30, 2020.

Capital Assets

The School had no capital assets to report at June 30, 2021 or June 30, 2020.

Current Financial Related Activities

The School's financial outlook over the next several years should remain steady as enrollment is expected to increase. 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.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(UNAUDITED)**

Contacting the School's Financial Management

This financial report is designed to provide all stakeholders with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Dawn Cummings, School Treasurer, Ohio Digital Learning School, 1745 Indian Wood Circle, Suite 210, Maumee, Ohio 43537.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2021

Assets

Current Assets:

Cash and Cash Equivalents	\$ 934,654
Prepaid Assets	10,613
Accounts Receivable	2,114,667
Intergovernmental Receivable	95,789
<i>Total Current Assets</i>	3,155,723

Noncurrent Assets:

Net OPEB Asset	84,233
	84,233

<i>Total Assets</i>	3,239,956
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Deferred Outflows of Resources:

Pension	1,741,728
OPEB	443,611
<i>Total Deferred Outflows of Resources</i>	2,185,339

Liabilities:

Current Liabilities:

Accounts Payable	2,814,881
Accrued Wages and Benefits	261,275
Intergovernmental Payable	42,082
Unearned Revenue	27,485
<i>Total Current Liabilities</i>	3,145,723

Long-Term Liabilities:

Net Pension Liability	2,234,161
Net OPEB Liability	322,557
<i>Total Long-Term Liabilities</i>	2,556,718

<i>Total Liabilities</i>	5,702,441
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Deferred Inflows of Resources:

Pension	7,416
OPEB	268,947
<i>Total Deferred Inflows of Resources</i>	276,363

Net Position:

Unrestricted (Deficit)	\$ (553,509)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Operating Revenues	
Foundation Payments	\$ 2,504,698
Special Education	477,072
Other Revenues	366
	<hr/>
Total Operating Revenues	2,982,136
	<hr/>
Operating Expenses	
Salaries	1,437,818
Fringe Benefits	1,317,194
Purchased Services	366,877
Materials and Supplies	701,151
Other	156,280
	<hr/>
Total Operating Expenses	3,979,320
	<hr/>
Operating Loss	(997,184)
	<hr/>
Non-Operating Revenues	
Grants Received - Federal	230,971
Grants Received - State and Local	86,728
	<hr/>
Total Non-Operating Revenues	317,699
	<hr/>
Change in Net Position	(679,485)
	<hr/>
Net Position at Beginning of Year	125,976
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Net Position (Deficit) at End of Year	\$ (553,509)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Cash Flows from Operating Activities:

Cash Received from Special Education	\$	479,855
Cash Received from Others		366
Cash Received from Foundation Payments		2,512,258
Cash Received to Supplies for Goods and Services		(507,470)
Cash Payments to Employees for Services		(1,362,691)
Cash Payments for Employee Benefits		(524,428)
Cash Payments to Others		(576,817)
		21,073
<i>Net Cash Provided by Operating Activities</i>		21,073

Cash Flows from Noncapital Financing Activities:

Cash Received from Grants - Federal		135,182
Cash Received from Grants - State and Local		89,214
		224,396
<i>Net Cash Provided by Noncapital Financing Activities</i>		224,396

Net Increase in Cash and Cash Equivalents 245,469

Cash and Cash Equivalents at Beginning of Year		689,185
Cash and Cash Equivalents at End of Year	\$	934,654

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:

Operating Loss	\$	(997,184)
Adjustments to Reconcile Operating Loss to Net Provided by Operating Activities:		
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:		
(Increase) in Accounts Receivable		(334,189)
(Increase) in Prepaid Items		(657)
Decrease in Intergovernmental Receivable		56,474
(Increase) in Net OPEB Asset		(84,233)
(Increase) in Deferred Outflows - Pension		(1,625,752)
(Increase) in Deferred Outflows - OPEB		(443,611)
Increase in Accounts Payable		460,364
Increase in Accrued Wages and Benefits		130,059
Increase in Intergovernmental Payable		26,721
Increase in Net Pension Liability		2,234,161
Increase in Net OPEB Liability		322,557
Increase in Deferred Inflows - Pension		7,416
Increase in Deferred Inflows - OPEB		268,947
		21,073
<i>Net Cash Provided by Operating Activities</i>	\$	21,073

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

1. DESCRIPTION OF THE SCHOOL

Ohio Digital Learning School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is a Department of Education-designated Dropout Prevention and Recovery School established to help students in grades 9-12 ages 16-21 reach their true potential. The School is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) on May 15, 2019, for a period of five academic years commencing on July 1, 2019 and expiring on June 30, 2024. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (see Note 15).

The School operates under the direction of a five 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 School's 12 instructional/support staff and 27 certificated teaching and other personnel who provide services to approximately 417 students.

The School contracts with K12 Virtual Schools L.L.C. (K12) 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 13 and 14).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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 School's accounting policies are described below:

A. Reporting Entity

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

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

B. Basis of Presentation

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

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as 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 School 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 School, 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 7 and 8.

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, deferred inflows of resources have been reported on the Statement of Net Position for pension and OPEB (see Notes 7 and 8).

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 School 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.

F. Cash and Cash Equivalents

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

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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 School maintains a capitalization threshold of over \$5,000 for all assets with a useful life of one year or more. 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 School utilizes the useful lives established by the IRS.

H. Intergovernmental Revenues

The School 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, 2021 State Foundation Program revenue was \$2,504,698 and revenue from the Special Education Program was \$477,072.

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

The School also participates in various State and Federal operating grants. Grants awarded in 2021 included \$230,971 from the IDEA, Title I, Coronavirus Relief Fund, and Elementary and Secondary School Emergency programs.

The School received \$20,813 in casino revenue and \$65,915 in other State grants during fiscal year 2021, which is reported in nonoperating State and local grants.

I. Accrued Liabilities

The School has recognized certain liabilities on its Statement of Net Position relating to expenses which are due but unpaid as of June 30, 2021 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources 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 deferred outflows of resources related to pensions/OPEB, 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.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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, 2021 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 School and the expense is recorded when used. Prepayments at June 30, 2021 consist primarily of rental and technology fees.

N. Unearned Revenue

If the School receives restricted funds that were not spent by the end of the fiscal year, the amount received is classified as unearned revenue and is carried over to the next fiscal year and repaid if not spent. The School did not have any unearned revenue at fiscal year-end.

3. DEPOSITS

At June 30, 2021, the carrying amount of the School's deposits totaled \$934,654 and its bank balance was \$947,366. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", as of June 30, 2021, \$697,366 of the bank balance was exposed to custodial credit risk as discussed below, while \$250,000 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 School's deposits may not be returned. The School has no deposit policy for custodial risk.

4. RECEIVABLES

Accounts receivable at June 30, 2021 consisted of \$2,114,573 due from K12 for the Balanced Budget Credit (see Note 16 for detail) and \$94 in miscellaneous receivables.

Intergovernmental receivables at June 30, 2021 consisted of Federal grant revenues 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. Intergovernmental receivables are listed as follows:

Program	Amount
ESSER I	\$ 64,295
IDEA	13,598
Title I	17,896
<i>Total Intergovernmental Receivable</i>	<i>\$ 95,789</i>

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5. INSTRUCTION

Approximately 82 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	\$ 1,568,035
Student On-Line Curriculum	7,230
Student Computers, Internet and Technology	416,532
Instructional Materials Expense	253,384
Pupil Support Salaries, Benefits and Expenses	538,978
Special Education Services	123,762
<i>Total</i>	\$ 2,907,921

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2021, the School obtained liability insurance through Arthur J. Gallagher with the following insurance coverage:

General Aggregate Limit (other than Products - Completed Operations)	\$3,000,000
Products - Completed Operations Aggregate Limit	3,000,000
Personal & Advertising Limit	1,000,000
Each Occurrence Limit	1,000,000
Fire Damage Limit	100,000
Medical Expense Limit	5,000

Settled claims have not exceeded these coverages in the past two years, nor has there been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The School contracts with Insperity to provide payroll processing services. Insperity covers employee workers compensation and charges the School to cover the cost.

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

The School contracts with Insperity to provide employee Medical, Dental, Vision, Prescription and Life Benefits.

7. DEFINED BENEFIT PENSION PLANS

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability/Asset

Pensions and OPEB are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions/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.

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 8 for the required OPEB disclosures.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liability (asset)* 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 School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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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 start of a COLA for future retirees. For 2021, the COLA was 0.5%.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2021, the allocation to pension, death benefits, and Medicare B was 14.0%.

The School's contractually required contribution to SERS was \$34,817 for fiscal year 2021.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers participate in STRS, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined (CO) 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 of 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 and after termination of employment.

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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 2021, plan members were required to contribute 14% of their annual covered salary. The School was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2021 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$166,477 for fiscal year 2021. Of this amount, \$22,183 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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00000000%	0.00000000%	
Proportion of the net pension liability current measurement date	<u>0.01624500%</u>	<u>0.00479278%</u>	
Change in proportionate share	<u>0.01624500%</u>	<u>0.00479278%</u>	
Proportionate share of the net pension liability	\$ 1,074,479	\$ 1,159,682	\$ 2,234,161
Pension expense	\$ 471,567	\$ 345,552	\$ 817,119

At June 30, 2021, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	\$ 2,088	\$ 2,602	\$ 4,690
Net difference between projected and actual earnings on pension plan investments	68,209	56,396	124,605
Changes of assumptions	-	62,251	62,251
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	552,251	796,637	1,348,888
Contributions subsequent to the measurement date	34,817	166,477	201,294
Total deferred outflows of resources	<u>\$ 657,365</u>	<u>\$ 1,084,363</u>	<u>\$ 1,741,728</u>
	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	<u>\$ -</u>	<u>\$ 7,416</u>	<u>\$ 7,416</u>

\$201,294 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2022.

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:			
2022	\$ 347,257	\$ 237,269	\$ 584,526
2023	225,508	217,383	442,891
2024	28,429	231,050	259,479
2025	21,354	224,768	246,122
Total	<u>\$ 622,548</u>	<u>\$ 910,470</u>	<u>\$ 1,533,018</u>

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.

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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, 2020, 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 investment expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2020, 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	2.00 %	1.85 %
US Equity	22.50	5.75
International Equity	22.50	6.50
Fixed Income	19.00	2.85
Private Equity	12.00	7.60
Real Assets	17.00	6.60
Multi-Asset Strategies	5.00	6.65
Total	<u>100.00 %</u>	

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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 earnings were calculated using the long-term assumed investment rate of return (7.50%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease	Current Discount Rate	1% Increase
School's proportionate share of the net pension liability	\$ 1,471,904	\$ 1,074,479	\$ 741,031

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2020, actuarial valuation are presented below:

	July 1, 2020
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, 2020, 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, 2020 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:

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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	<u>100.00 %</u>	

**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 pension liability was 7.45% as of June 30, 2020. 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, 2020. 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, 2020.

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

	1% Decrease	Current Discount Rate	1% Increase
School's proportionate share of the net pension liability	\$ 1,651,186	\$ 1,159,682	\$ 743,174

8. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

See Note 7 for a description of the net OPEB liability (asset).

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Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2021, 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 2021, this amount was \$23,000. 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 2021, the School's surcharge obligation was \$0.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$0 for fiscal year 2021.

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.

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, 2021, STRS did not allocate any employer contributions to post-employment health care.

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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, 2020, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability/asset was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.00000000%	0.00000000%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.01484160%</u>	<u>0.00479278%</u>	
Change in proportionate share	<u>0.01484160%</u>	<u>0.00479278%</u>	
Proportionate share of the net OPEB liability	\$ 322,557	\$ -	\$ 322,557
Proportionate share of the net OPEB asset	\$ -	\$ (84,233)	\$ (84,233)
OPEB expense	\$ 67,547	\$ (3,887)	\$ 63,660

At June 30, 2021, the School 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	\$ 4,237	\$ 5,398	\$ 9,635
Net difference between projected and actual earnings on OPEB plan investments	3,635	2,953	6,588
Changes of assumptions	54,984	1,391	56,375
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>364,319</u>	<u>6,694</u>	<u>371,013</u>
Total deferred outflows of resources	<u>\$ 427,175</u>	<u>\$ 16,436</u>	<u>\$ 443,611</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 164,042	\$ 16,777	\$ 180,819
Changes of assumptions	<u>8,123</u>	<u>80,005</u>	<u>88,128</u>
Total deferred inflows of resources	<u>\$ 172,165</u>	<u>\$ 96,782</u>	<u>\$ 268,947</u>

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

Fiscal Year Ending June 30:	SERS	STRS	Total
2022	\$ 44,231	\$ (20,626)	\$ 23,605
2023	44,493	(18,629)	25,864
2024	44,451	(17,924)	26,527
2025	44,808	(17,487)	27,321
2026	49,752	(2,724)	47,028
Thereafter	27,275	(2,956)	24,319
Total	\$ 255,010	\$ (80,346)	\$ 174,664

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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LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2020 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 investment expense, including inflation
Municipal bond index rate:	
Measurement date	2.45%
Prior measurement date	3.13%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	2.63%
Prior measurement date	3.22%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 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.

**OHIO DIGITAL LEARNING SCHOOL
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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	2.00 %	1.85 %
US Equity	22.50	5.75
International Equity	22.50	6.50
Fixed Income	19.00	2.85
Private Equity	12.00	7.60
Real Assets	17.00	6.60
Multi-Asset Strategies	5.00	6.65
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2020 was 2.63%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.22%. 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 2.45%, as of June 30, 2020 (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 3.13% was used as of June 30, 2019. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.63%) and higher (3.63%) than the current discount rate (2.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate (7.00% decreasing to 4.75%).

	1% Decrease	Current Discount Rate	1% Increase
School's proportionate share of the net OPEB liability	\$ 394,801	\$ 322,557	\$ 265,122

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB liability	\$ 253,989	\$ 322,557	\$ 414,249

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2020, actuarial valuation, compared with July 1, 2019, are presented below:

	July 1, 2020		July 1, 2019	
	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%	
Discount rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
Medical				
Pre-Medicare	5.00%	4.00%	5.87%	4.00%
Medicare	-6.69%	4.00%	4.93%	4.00%
Prescription Drug				
Pre-Medicare	6.50%	4.00%	7.73%	4.00%
Medicare	11.87%	4.00%	9.62%	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, 2020 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, 2019.

Benefit Term Changes Since the Prior Measurement Date - There was no change to the claims costs process. Claim curves were updated to reflect the projected fiscal year end 2021 premium based on June 30, 2020 enrollment distribution. The non-Medicare subsidy percentage was increased effective January 1, 2021 from 1.984% to 2.055% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2021. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the AMA Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed indefinitely.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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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:

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	<u>100.00 %</u>	

**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, 2020. 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, 2020.

Sensitivity of the School's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2020, 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.

	1% Decrease	Current Discount Rate	1% Increase
School's proportionate share of the net OPEB asset	\$ 73,288	\$ 84,233	\$ 93,519

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB asset	\$ 92,943	\$ 84,233	\$ 73,623

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

9. CONTINGENCIES

A. Grants

The School received financial assistance from 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2021.

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 School for fiscal year 2021.

As of the date of this report, all ODE adjustments have been completed.

In addition, the School 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 2021 financial statements

10. OPERATING LEASES

The School leases an office facility under an operating lease. The lease commenced May 15, 2019 and terminates on June 30, 2024. Total lease payments were \$91,200 for the year ended June 30, 2021. The future minimum lease payments, excluding taxes and common area operating expenses, for this lease are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 91,200
2023	91,200
2024	91,200
<i>Total Minimum Lease Payments</i>	<u><u>\$ 273,600</u></u>

**OHIO DIGITAL LEARNING SCHOOL
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

11. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2021, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Service Type</u>	<u>Amount</u>
Professional/Technical Services	\$ 179,094
Property Services	110,484
Communications	54,527
Travel	18,113
Pupil Support Salaries, Benefits and Expenses	125
Contracted Trade Services	4,534
<i>Total</i>	<u><u>\$ 366,877</u></u>

12. TAX EXEMPT STATUS

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

13. MANAGEMENT AGREEMENT

The School entered into a five-year contract, effective July 1, 2019 through June 30, 2024, with K12 Virtual Schools, L.L.C. (K12) for educational, administrative and technology services. Per the management agreement, K12 is entitled to 15% percent of revenues as an administrative fee (management) and 7% of revenues as a technology fee. The educational services are purchased at the prevailing rate charged by K12 Inc. to its partner schools. Terms of the contract require K12. to provide the following:

A. Administrative services:

- Personnel and facility management
- Administration of all business aspects and day-to-day management of the School
- Budgeting and financial reporting and the annual reports
- Financial management
- Maintenance of financial and student records
- Pupil recruitment, admissions and student discipline
- Rules and procedures and nondiscrimination requirements
- Public relations
- Teacher effectiveness and training
- Sponsor policies and charter renewal

**OHIO DIGITAL LEARNING SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

B. Technology services:

- 24/7 monitoring of production services. i.e., SIMS and the on-line learning management system
- Monitor and analyze data, as necessary
- Report on pupils' academic performance
- Seek and secure competitive pricing and discounts for School, as available
- Provide training to staff, as deemed necessary
- Develop community tools on the School's website and K12 platform
- Determine hardware configurations (including software and operating systems)
- Provide onsite and telephone support for the School Administration in troubleshooting system errors
- Telephone support for students
- Propose policies and procedures regarding the responsible use of computer equipment
- Support teachers and associates in answering technology related questions from students, parents, teachers and administrators
- Ensure electronic integrity of student records (through the use of encryption, firewalls, etc.)
- Provide web-filtering device
- Provide online enrollment, registration and placement services,
- Provide email accounts for school employees
- Coordinate web hosting contracts and relationships with vendors across the state as needed

C. Educational products and services:

- Curriculum
- Instructional tools and materials
- Instructional support
- Computers
- Testing support

The School had an advance of \$425,000 outstanding at June 30, 2020 from K12. The advance was made to cover the payment of Start Up Costs. The advance was paid in full during fiscal year 2021.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

14. K12 INC. MANAGEMENT COMPANY DISCLOSURE

For the fiscal year ended June 30, 2021, K12 Inc. incurred the following expenses in support of the School:

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)	\$ -	\$ -	\$ 675,708	\$ -	\$ 675,708
Employees' Benefits (200)	-	-	169,449	-	169,449
Professional & Technical Services (410)	-	-	105,061	-	105,061
Property Services (420)	-	-	9,961	-	9,961
Travel (430)	-	-	4,515	-	4,515
Communications (440)	-	-	123,334	-	123,334
Contracted Craft or Trade Services (460)	-	-	1,715	-	1,715
Other Purchased Services (490)	-	-	24,496	-	24,496
Books, Periodicals, & Films (520, 530, 540)	117,355	29,251	-	-	146,606
Other Supplies (510, 550, 570, 580, 590)	-	-	118,661	-	118,661
Depreciation	-	-	-	86,782	86,782
Interest (820)	-	-	-	20,007	20,007
Dues and Fees (840)	-	-	103,941	-	103,941
Other Direct Costs (all other object codes)	-	-	(280,662)	-	(280,662)
Total Allocated Direct Expenses	117,355	29,251	1,056,179	106,789	1,309,574
Overhead	-	-	553,539	-	553,539
Total Direct Expenses and Overhead	\$ 117,355	\$ 29,251	\$ 1,609,718	\$ 106,789	\$ 1,863,113

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

15. SPONSOR

The School was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five academic years commencing on July 1, 2019 through June 30, 2024. As part of this contract, the Sponsor is paid an oversight fee which is 3 percent of the total State Foundation funds received during the year. The total amount paid to the Sponsor for fiscal year 2021 was \$89,156.

**OHIO DIGITAL LEARNING SCHOOL
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

16. BALANCED BUDGET CREDITS

The School and K12 agreed to take all reasonable steps necessary to avoid a deficit net position at fiscal year-end, excluding adjustments related to GASB Statements No. 68 and 75, during the term. At the end of the year, if necessary, based on the School's audited financial statements, K12 will issue sufficient credits, Balanced Budget Credits, during the term to be applied to K12 invoices. If the cumulative total of Balanced budget Credit exceeds the total of the administrative services fee and the technology fee due to K12 for the current fiscal year, K12 can issue additional credits as needed. All Balanced Budget Credits shall be accounted for and documented.

If the School's budget ends a fiscal year in a positive net position, as evidenced by its audited financial statements in accordance with GAAP, and K12 has issued Balanced Budget Credits, the Board and K12 will remit to K12 the Positive Net Position for the fiscal year, to the extent not prohibited by law, up to the cumulative amount of previously issued Balanced Budget Credits.

For the year ended June 30, 2021, the School received a Balanced Budget Credit of \$2,114,584.

17. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2021, the School has applied GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

Certain provisions contained in the following pronouncements were scheduled to be implemented for the fiscal year ended June 30, 2021. Due to the implementation of GASB Statement No. 95, the effective dates of certain provisions contained in these pronouncements are postponed until the fiscal year ended June 30, 2022:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

18. COVID-19

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

19. SUBSEQUENT EVENT

For fiscal year 2022, community school foundation funding received from the State of Ohio will be funded using a direct funding model. For fiscal year 2021 and prior, the amounts related to students who were residents of a particular school district were funded to the school district who, in turn, made the payment to the respective community school. This new funding system calculates a unique base cost for each community school. Any change in funding will be subject to a phase in percentage of 16.67 percent for fiscal year 2022 and 33.33 percent for fiscal year 2023.

**OHIO DIGITAL LEARNING SCHOOL
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
CURRENT FISCAL YEAR

	<u>2021</u>
School's Proportion of the Net Pension Liability	0.01624500%
School's Proportionate Share of the Net Pension Liability	\$ 1,074,479
School's Covered Payroll	\$ 140,257
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	766.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.55%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

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

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
CURRENT FISCAL YEAR

	<u>2021</u>
School's Proportion of the Net Pension Liability	0.00479278%
School's Proportionate Share of the Net Pension Liability	\$ 1,159,682
School's Covered Payroll	\$ 688,143
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	168.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.48%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

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

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

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

	<u>2021</u>	<u>2020</u>
Contractually Required Contribution	\$ 34,817	\$ 19,636
Contributions in Relation to the Contractually Required Contribution	<u>(34,817)</u>	<u>(19,636)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 248,693	\$ 140,257
Contributions as a Percentage of Covered Payroll	14.00%	14.00%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

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

	<u>2021</u>	<u>2020</u>
Contractually Required Contribution	\$ 166,477	\$ 96,340
Contributions in Relation to the Contractually Required Contribution	<u>(166,477)</u>	<u>(96,340)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 1,189,121	\$ 688,143
Contributions as a Percentage of Covered Payroll	14.00%	14.00%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
CURRENT FISCAL YEAR

	2021
School's Proportion of the Net OPEB Liability	0.01484160%
School's Proportionate Share of the Net OPEB Liability	\$ 322,557
School's Covered Payroll	\$ 140,257
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	228.98%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	18.17%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

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

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY (ASSET)
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
CURRENT FISCAL YEAR

	<u>2021</u>
School's Proportion of the Net OPEB Liability (Asset)	0.00479278%
School's Proportionate Share of the Net OPEB Liability (Asset)	\$ (84,233)
School's Covered Payroll	\$ 688,143
School's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	12.24%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	182.10%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

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

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

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

	<u>2021</u>	<u>2020</u>
Contractually Required Contribution	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 248,693	\$ 140,257
Contributions as a Percentage of Covered Payroll	0.00%	0.00%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

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

	<u>2021</u>	<u>2020</u>
Contractually Required Contribution	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 1,189,121	\$ 688,143
Contributions as a Percentage of Covered Payroll	0.00%	0.00%

Note: Fiscal year 2020 was the first year of operations for the School. The School will continue to present information for years available until a ten-year trend is available.

See accompanying notes to the required supplementary information.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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 2019-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2021.

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 2019-2021.

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 2019-2021.

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 2017-2021.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%. 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%. For fiscal year 2021, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate decreased from 3.22% to 2.63% and (b) the municipal bond index rate decreased from 3.13% to 2.45%.

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 increase 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. For fiscal year 2021, the non-Medicare subsidy percentage was increased effective January 1, 2021 from 1.984% to 2.055% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2021. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the AMA Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed indefinitely.

**OHIO DIGITAL LEARNING SCHOOL
LUCAS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate. 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. For fiscal year 2021, health care cost trend rates were changed to the following: medical pre-Medicare from 5.87% initial - 4.00% ultimate down to 5.00% initial - 4.00% ultimate; medical Medicare from 4.93% initial - 4.00% ultimate down to 9.62% initial - 4.00% ultimate up to 11.87% initial - 4.00% ultimate.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Ohio Digital Learning School
Lucas County, Ohio
1745 Indian Wood Circle
Maumee, Ohio 43537

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Digital Learning School, Lucas County, Ohio (the “School”) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated March 11, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements, however, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
March 11, 2022

OHIO AUDITOR OF STATE KEITH FABER



OHIO DIGITAL LEARNING SCHOOL

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 5/5/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov