

Comprehensive Annual Financial Report

For the Year Ended June 30, 2016



Invictus High School

Cleveland, Ohio



Dave Yost • Auditor of State

Board of Directors
Invictus High School
3122 Euclid Avenue
Cleveland, Ohio 44115

We have reviewed the *Independent Auditor's Report* of the Invictus High School, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Invictus High School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 30, 2017

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Invictus High School Cleveland, Ohio

Comprehensive Annual Financial Report For the Year Ended June 30, 2016

Prepared by Brian G. Adams MBA, CMA, CFM, CrFA

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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Introductory Section

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Cleveland, Ohio 44115

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www.invictushigh.org

December 28, 2016

Invictus High School Community
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Invictus High School (the School) for the fiscal year ended June 30, 2016. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

Introductory Section The Introductory Section includes the Transmittal Letter, a list of our Board members, an organizational chart, and GFOA Certificate of Achievement.

Financial Section The Financial Section consists of the Independent Auditor's Report, Required Supplemental Information, and the Basic Financial Statements as well as the Notes to the Basic Financial Statements that provide an overview of the School's financial position and operating results.

Statistical Section The Statistical Section includes selected financial and demographic information about the School on a multi-year basis.

The School's management is responsible for the reliability of the data presented and the completeness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School. All disclosures necessary to enable the reader to gain an understanding of the School's financial activities have been included.

Further, the School has established a comprehensive framework of internal controls that is designed to compile sufficient reliable information for the preparation of its financial statements in accordance with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the School's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). Rea & Associates, Inc rendered an opinion on the School's financial statements as of June 30, 2016 and the Independent Auditor's Report on the Basic Financial Statements is included in the Financial Section herein.

As required by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion follows the Independent Auditor's Report and provides an assessment of the School's finances for fiscal year 2016 and the outlook for the future.

Profile of the Government

Ohio charter schools began operating after the passage of a 1997 State law. Charter schools, commonly referred to as “community schools” in Ohio, and are public, non-profit, non-sectarian schools established to operate independently of any School District. These schools also are exempt from many of the education laws of the State allowing them to bring innovation and efficiency to the traditional education model. More importantly, the passage of this law made the concept of school choice a reality in Ohio. As required by law, each of these community schools must have a sponsor. Effective July 1, 2010, the School entered into a contract with a sponsor, St. Aloysius Orphanage. St. Aloysius Orphanage provides oversight and advisory services to 46 community schools throughout the State serving over 10,000 children.

Invictus High School is a School that brings an innovative approach to addressing the high school dropout epidemic head on. This alternative high school program offers at-risk students ages 16-21 years old an opportunity to have a second chance at obtaining a quality education and vocational training and placement. Participation in this program leads students to a high school diploma, not a GED and places them on a path to success (see more at <http://www.invictushigh.org>). The School, which first opened its doors in July of 1999 in downtown Cleveland, Ohio, is run by a seven-member Board of Directors. The School looks to its history of consistently graduating students from its program twice a year as a measure of its success. The School has contracted with Midwest Education Partners dba Cambridge Education Group (CEG) (the Company) to operate the School on a day-to-day basis. CEG is a national leader in professional education management that operates 10 schools in under the auspices of three separate educational ventures. The Company began managing the school July 2012.

Economic Issues

Since the enactment of community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see Statistical Section for historical funding levels). Historically, the School has seen increases in the base level per pupil funding amount. However, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities that they operate in. By comparison, the Cleveland City School District receives over \$18,000 in average per pupil funding from all sources whereas the School (which is also located in the City of Cleveland) receives only \$9,762 from all sources. These disparities in funding are in part, the reason why contracting with a professional educational management firm like Midwest Education Group was an attractive option. By managing multiple schools, the Company is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school (see Note 8 for a full description of services provided by the Company).

As discussed later, the School was funded on 358 full-time equivalent students for fiscal year 2016. As of the date of this letter, it is expected that the School will maintain that enrollment with the possibility of a slight decline consistent with declines seen in other Schools throughout the State. Obviously, any decline in enrollment would have a direct corresponding impact to current year revenues.

Awards and Acknowledgements

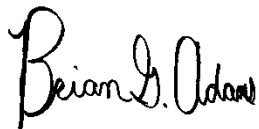
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Invictus High School for its CAFR for the year ended June 30, 2015. The School has received the award annually since 2004. The School was also acknowledged by the Ohio Department of Education as being one of the first community schools in the State to ever receive such an award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and effectively organized CAFR, whose contents conforms to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report, which is included herein, will conform to the high standards required by the Certificate of Achievement program.

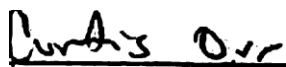
The Comprehensive Annual Financial Report was prepared by the fiscal management team for the School. Their commitment to this process has helped to make this report possible. We would also like to thank Mr. Orr and other members of the Board of Directors and Finance Committee for their support in this endeavor. It is truly appreciated.

Finally, we would like to thank our School community for entrusting us with the education of your children. You are the reason we are here. We are committed to bettering our students, their parents, and the communities we serve by providing the very best alternative in public education.

Sincerely,



Brian G. Adams MBA, CMA, CFM, CrFA
Fiscal Officer/Internal Auditor
Invictus High School

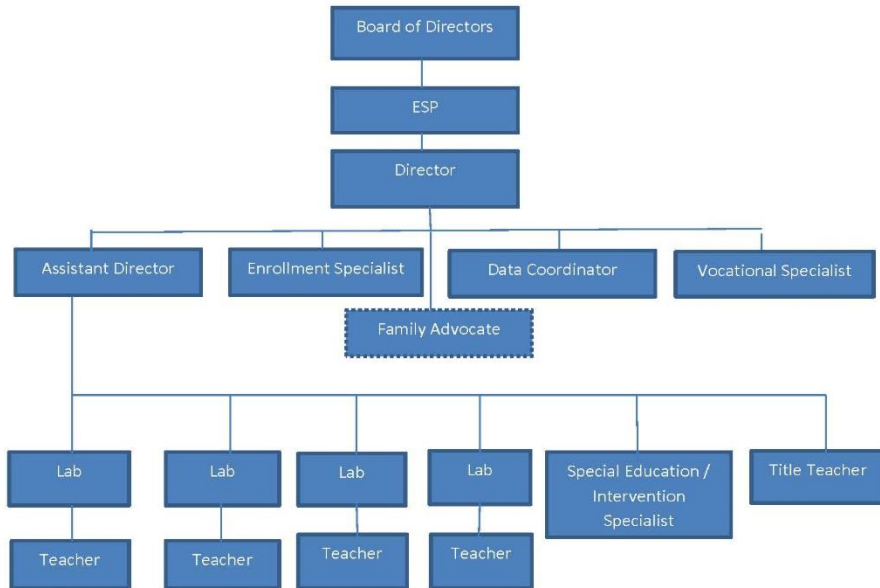


Curtis Orr
President, Board of Directors
Invictus High School

Invictus High School
Board of Directors
June 30, 2016

Curtis Orr	Board President
Deidre Cummings	Board Member
Ashleigh King	Board Member
Antoinette Warner	Board Member
Antoine Williams	Board Member
Alyvia Frazier	Board Member
Brenda Dixon	Board Member

Organizational Chart



*Optional Based on School Size



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Invictus High School
Ohio**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Financial Section

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December 28, 2016

To the Board of Directors
Invictus High School
Cuyahoga County, Ohio
3122 Euclid Avenue
Cleveland, OH 44115

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Invictus High School, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2016, 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 the School, as of June 30, 2016, 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 the Schedule of the School's Proportionate Share of the Net Pension Liability, and Schedule of School Contributions on pages 3-7, 30, and 31, respectively, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016 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 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 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.

Kea & Associates, Inc.

Cambridge, Ohio

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)**

The discussion and analysis of the Invictus High School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the 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 Required Supplemental Information for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net position increased \$67,230, which represents a 30.8 percent increase from 2015. The increase is due to increased enrollment in 2016.
- Total assets increased \$519,292, which represents a 43.3 percent increase from 2015. This was primarily due to an increase in capital assets from the previous year.
- Liabilities increased \$1,470,410, which represents a 110.0 percent increase from 2015. The increase in liabilities is a direct result of increased Net Pension Liabilities.

Using this Financial Report

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

The School uses enterprise presentation for all of its activities.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2016. This statement includes all assets, deferred inflows of resources, liabilities, deferred outflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position for fiscal years 2016 and 2015.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)**

(Table 1)
Statement of Net Position

	2016	2015
Assets		
Current Assets	\$ 650,707	\$ 966,523
Leasehold Deposits	23,250	23,250
Capital Assets, Net	1,045,010	209,902
Total Assets	1,718,967	1,199,675
Deferred Outflows of Resources		
Pension Requirements	966,004	101,941
Liabilities		
Current Liabilities	792,897	287,922
Long Term Liabilities	2,014,785	1,049,350
Total Liabilities	2,807,682	1,337,272
Deferred Inflows of Resources		
Pension Requirements	28,643	182,928
Net Position		
Net Investment In Capital Assets	998,198	137,723
Unrestricted	(1,149,552)	(356,307)
Total Net Position	\$ (151,354)	\$ (218,584)

Total assets increased \$519,292, which represents a 43.3 percent increase from 2015. This was primarily due to an increase in capital assets from the previous year. Liabilities increased \$1,470,410, which represents a 110.0 percent increase from 2015. The increase in liabilities is a direct result of increased long-term liabilities related to net pension liability.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal years 2016 and 2015, as well as, a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)**

(Table 2)
Change in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues		
State Aid	\$3,193,775	\$2,962,768
Casino Aid	20,183	12,519
Facilities Funding	53,667	29,862
Non-Operating Revenue		
Grants	286,366	233,606
Interest Income	779	314
Miscellaneous	1,467	1,926
	<u>3,556,237</u>	<u>3,240,995</u>
Total Revenues		
Operating Expenses		
Purchased Services: Salaries and Benefits	1,431,380	849,474
Purchased Services: Management Fees	608,098	466,524
Sponsorship Fees	102,660	80,533
Legal	48,949	27,766
Auditing and Accounting	41,783	40,461
Other Professional Services	304,366	195,349
Other Purchased Services	537,092	381,336
Supplies	164,110	133,898
Equipment and Furniture	76,171	102,357
Depreciation	91,625	149,025
Other Operating Expenses	81,356	42,132
Non-Operating Expenses		
Interest and Fiscal Charges	1,417	668
	<u>3,489,007</u>	<u>2,469,523</u>
Total Expenses		
Change in Net Position	<u>\$ 67,230</u>	<u>\$ 771,472</u>

The primary reason for an increase in overall revenues from 2015 is attributable to the increase in enrollment to 358 students. The School's most significant expenses, "Purchased Services: Management Fees" And "Salaries and Benefits" increased as well because of the management agreement in place between the School and its management company. As stated previously, the agreement provides that specific percentages of the revenues received by the School will be paid to CEG to fund operations as well as direct reimbursement of salaries and benefits (see Note 8).

During 2015, the School adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)**

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

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources. The contractually required contribution is no longer a component of pension expense, under GASB 68, the 2016 statements report pension expense of \$163,343.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)**

Capital Assets

At the end of fiscal year 2016, the School had a capital asset net book value of \$1,045,010, with accumulated depreciation totaling \$324,331. The capital assets are reported in the accompanying Statement of Net Position, at June 30, 2016.

(Table 3)

Capital Assets (Net of Depreciation)

	2016	2015
Leasehold Improvements	\$ 123,626	\$ 209,719
Buildings	803,253	-
Land	114,029	-
Furniture and Equipment	4,102	183
Total Capital Assets, Net	\$ 1,045,010	\$ 209,902

For more information on capital assets, see Note 6 in the Notes to the Basic Financial Statements.

Current Financial Issues

The Invictus High School received revenue for 358 students (FTE) in 2016 (an increase of 26 students from 2015) and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$9,127 in fiscal year 2016. The School receives additional revenues from grant subsidies.

State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee. In July 2010, the School contracted with Saint Aloysius Orphanage (SAO) (Sponsor) to be its Sponsor. The term of the contract is from July 1, 2010 through June 30, 2014. The sponsor was paid two percent (2%) for the time period of July 1, 2010 through June 30, 2012, two and a half percent (2.5%) for the time period of July 1, 2012 through June 30, 2013 and three percent (3%) for the remainder of the contractual period, which was extended one year through June 30, 2015. In June 2015, the School and the Sponsor signed a new agreement for a term of one (1) year and will automatically renew for one (1) year terms through June 30, 2018. The school may terminate the agreement by sending notice 180 days prior to June 30. The Sponsor can terminate by sending notice by February 1st of the termination year.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Brian G. Adams, Fiscal Officer for the Invictus High School, 65 E. Wilson Bridge Road, Worthington, OH 43085 or e-mail at badams@ocscltd.com.

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**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 631,436
Grants Receivable	7,876
Receivable from Schools	938
Retirement System Receivable	10,457
	10,457

Total Current Assets	650,707
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Non-current Assets:

Leasehold Deposits	23,250
Non-Depreciable Capital Assets, net	114,029
Depreciable Capital Assets, net	930,981
	930,981

Total Non-Current Assets	1,068,260
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Total Assets	1,718,967
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DEFERRED OUTFLOWS OF RESOURCES

Pension Requirements	966,004
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LIABILITIES

Current Liabilities:

Accounts Payable	515,652
State Funding Payable	38,664
Grants Funding Payable	56,454
Continuing Fees Payable	151,284
Capital Lease Payable	30,843
	30,843

Total Current Liabilities	792,897
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Long-Term Liabilities:

Capital Lease Payable	15,969
Net Pension Liability	1,998,816
	1,998,816

Total Long Term Liabilities	2,014,785
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Total Liabilities	2,807,682
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DEFERRED INFLOWS OF RESOURCES

Pension Requirements	28,643
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NET POSITION

Net Investment in Capital Assets	998,198
Unrestricted	(1,149,552)
	(1,149,552)

Total Net Position	\$ (151,354)
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See accompanying notes to the basic financial statements

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES	
State Aid	\$3,193,775
Casino Aid	20,183
Facilities Funding	<u>53,667</u>
Total Operating Revenues	<u>3,267,625</u>
OPERATING EXPENSES	
Purchased Services: Salaries and Benefits	1,431,380
Purchased Services: Management Fees	608,098
Sponsorship Fees	102,660
Legal	48,949
Auditing and Accounting	41,783
Other Professional Services	304,366
Other Purchased Services	537,092
Supplies	164,110
Equipment and Furniture	76,171
Depreciation	91,625
Other Operating Expenses	<u>81,356</u>
Total Operating Expenses	<u>3,487,590</u>
Operating Loss	<u>(219,965)</u>
NON-OPERATING REVENUE/(EXPENSES)	
Grants	286,366
Interest and Fiscal Charges	(1,417)
Miscellaneous	1,467
Interest Income	<u>779</u>
Total Non-Operating Revenue/(Expenses)	<u>287,195</u>
Change in Net Position	67,230
Net Position Beginning of Year	<u>(218,584)</u>
Net Position End of Year	<u><u>\$ (151,354)</u></u>

See accompanying notes to the basic financial statements

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$3,496,242
Cash Payments to Suppliers for Goods and Services	<u>(3,381,506)</u>
Net Cash Provided By Operating Activities	<u>114,736</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Miscellaneous Cash Receipts	1,467
Cash Received from Grant Programs	<u>319,841</u>
Net Cash Provided By Noncapital Financing Activities	<u>321,308</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Cash Payments for Capital Assets	(506,128)
Cash Payments for Interest and Fiscal Charges	(1,417)
Cash Payments for Capital Lease Principal	<u>(32,123)</u>
Net Cash Used For Capital Financing Activities	<u>(539,668)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	<u>779</u>
Net Decrease in Cash and Cash Equivalents	(102,845)
Cash and Cash Equivalents Beginning of Year	<u>734,281</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 631,436</u></u>

RECONCILIATION OF OPERATING LOSS TO NET

CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	\$ (219,965)

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET

CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	91,625
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
State Funding Receivable	189,953
Accounts Payable	71,220
State Funding Payable	38,664
Continuing Fee Payable	5,374
Retirement Expense Payable/Receivable	(23,435)
Deferred Rent	(11,393)
Net Pension Liability	991,041
Deferred Outflows of Resources	(864,063)
Deferred Inflows of Resources	<u>(154,285)</u>
Total Adjustments	<u>243,076</u>
Net Cash Provided By Operating Activities	<u><u>\$ 114,736</u></u>

Non-Cash Transaction: As of June 30, 2016, \$414,451 worth of capital assets were purchased on account for buildings and \$6,154 for furniture and equipment with the inception of a capital lease.

See accompanying notes to the basic financial statements

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Invictus High School (the School) is a federal 501(c)(3), state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Midwest Education Partners, for most of its functions. Midwest Education Partners, LLC, a Florida limited liability company d/b/a Cambridge Education Group (CEG) in Ohio, is the entity with which the School's board interacts regarding day-to-day operations (See Note 8 for details).

The School was originally approved for operation under contract with the Ohio State Board of Education for a period of five years from August 23, 1999 through June 30, 2004. The contract was also renewed with the Ohio State Board of Education for a subsequent one year period from July 1, 2004 through June 30, 2005. Effective July 1, 2005, House Bill 364 required schools sponsored by the Ohio Department of Education to have new sponsorship in place by June 30, 2005. The School signed a contract with Ohio Council of Community Schools (OCCS), to operate for a period from July 1, 2005 through June 30, 2010. In July 2010, the School contracted with Saint Aloysius Orphanage (SAO) to be its Sponsor. The term of the contract was from July 1, 2010 through June 30, 2014. The Contract was renewed for an additional one year term ending June 30, 2015. In June 2015, the School and the Sponsor signed a new agreement for a term of one (1) year and will automatically renew for one (1) year terms through June 30, 2018. The school may terminate the agreement by sending notice 180 days prior to June 30. The Sponsor can terminate by sending notice by February 1st of the termination year.

The School operates under a self-appointing, seven-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School began operations in July 1999 and has one instructional/support facility, which is leased. The facility is staffed with teaching personnel employed by CEG, who provide services to 358 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles 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. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in Net Position, financial position and cash flows.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred inflows of resources, liabilities, and deferred outflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the school's contract with its sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2016. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391, as it relates to five-year forecasts.

D. Cash and Cash Equivalents

All cash received by the School is maintained in demand deposit accounts, a money market account, and STAROhio. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2016, investments were limited to the State Treasurer's Investment Pool (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2016.

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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. Amounts awarded under the above programs for the 2016 school year totaled \$3,553,991.

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

The capital assets recorded on the accompanying Statement of Net Position at cost, net of accumulated depreciation, at \$1,045,010. Depreciation is computed by the straight-line method over five years for "Furniture and Equipment", five to twenty years for "Leasehold Improvements" and 39 years for "Buildings".

G. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets, deferred inflows of resources, liabilities, and deferred outflows of resources the disclosure of contingent assets, deferred inflows of resources, liabilities, and deferred outflows of resources at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Net Position

Net position represent the difference between (all assets plus deferred outflows of resources) less (all liabilities plus deferred inflows of resources). Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State aid, facility aid and Casino Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Pensions

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes 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 are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position 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. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 10).

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all School deposits was \$631,399 and its bank balance was \$632,023. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$184,777 of the School's bank balance was exposed to custodial risk as discussed below. \$447,246 of the bank balance was covered by the Federal Deposit Insurance Corporation.

The investment and deposit of the School's monies is governed by the provisions of the ORC. In accordance with these statutes, the School is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit and STAR Ohio.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits with Financial Institutions (Continued)

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 credit risk beyond the requirements of state statute. According to state law, public depositories must give security for all public funds on deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. State law does not require security for public deposits and investments to be maintained in the School's name. During 2016, the School and public depositories complied with the provisions of these statutes.

B. Investments

As of June 30, 2016, the School had the following investments and maturities:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>Investment Maturities</u>
		<u>6 months or less</u>
STAROhio	\$37	\$37

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School, will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The School's investments in federal agency securities are exposed to custodial credit risk in that it is uninsured, unregistered and held by the counterparty's trust department or agent but not in the School's name. The School's investment policy does not deal with investment custodial credit risk beyond the requirements in State statute that prohibits payment for investments prior to delivery of the securities representing such investments to the treasurer or qualified trustee.

Interest Rate Risk: As a means of limiting its exposure to measurement value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days.

Credit Risk: The School's investments at June 30, 2016 in StarOhio are rated AAAM by Standard & Poor's.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2016:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>Percent to Total</u>
STAROhio	\$37	100.00

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

4. CONTINUING FEES PAYABLE

A "Continuing Fees Payable" to former management company White Hat Management Company, (WHLS, LLC) has been recorded by the School in the amount of \$78,405, and reported in the Statement of Net Position. The balance was due an underpayment of management fees not paid and awaiting final reconciliation.

A "Continuing Fees Payable" to current management company Cambridge Education Group has been recorded by the School in the amount of \$72,879 and reported in the Statement of Net Position. The balance was due to the unpaid payroll reimbursements and management fees due at June 30, 2016.

5. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Receivable" in the amount of \$7,876 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2016.

Additionally, the School has recorded a liability to former management company WHLS in the amount of \$56,454 for grant monies earned in fiscal year 2013 and unpaid to WHLS as of June 30, 2016.

Both are reported in the Statement of Net Position.

6. CAPITAL ASSETS AND DEPRECIATION

The summary of capital assets at June 30, 2016 follows:

	Balance <u>06/30/15</u>	Additions	Retirements	Balance <u>06/30/16</u>
Capital Assets Not Being Depreciated				
Land	\$ -	\$114,029	\$ -	\$ 114,029
Capital Assets Being Depreciated				
Leasehold Improvements	430,463	-	-	430,463
Furniture and Equipment	12,145	6,154	-	18,299
Buildings	-	806,550	-	806,550
Total Capital Assets Being Depreciated	<u>442,608</u>	<u>812,704</u>	<u>-</u>	<u>1,255,312</u>
Less Accumulated Depreciation				
Leasehold Improvements	(220,744)	(86,093)	-	(306,837)
Furniture and Equipment	(11,962)	(2,235)	-	(14,197)
Buildings	-	(3,297)	-	(3,297)
Total Accumulated Depreciation	<u>(232,706)</u>	<u>(91,625)</u>	<u>-</u>	<u>(324,331)</u>
Net Total Capital Assets	<u>\$209,902</u>	<u>\$835,108</u>	<u>\$ -</u>	<u>\$1,045,010</u>

7. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with CEG, CEG has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see Note 8). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$2,500 deductible.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

8. AGREEMENT WITH CAMBRIDGE EDUCATION GROUP

Effective July 1, 2012, the School entered into a multi-year Management Agreement (Agreement) with Midwest Education Partners, dba Cambridge Education Group (CEG) which is a subsidiary of Newpoint Education for consulting and management of the School. The Agreement's term runs through June 30, 2015, which automatically renewed until 2017. Substantially all functions of the School have been contracted to CEG.

CEG is responsible and accountable to the Board of Directors for the administration and day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 15 percent. In addition to the management fee described above, the School will reimburse CEG for its payroll and other costs eligible for reimbursement. The management fee CEG receives is 16 percent of "state and local" revenue.

The School had purchased service expenses for the year ended June 30, 2016, to CEG of \$2,039,478 (\$608,098 being management fees) with payables to CEG at June 30, 2016. CEG is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

9. CAPITALIZED LEASE OBLIGATIONS

The school entered into a capitalized lease for the acquisition of equipment. The lease meets the criteria of a capital lease as defined by the accounting standards, which defines a capital lease generally as one which transfers benefit and risk of ownership to the lessee. This capital lease has been recorded as a capital asset at the present value of the minimum lease payments as of the inception date. The capital lease is recorded as Equipment of \$10,450 with accumulated depreciation of \$5,607. The School paid \$2,717 in principal and \$1,417 in interest for the fiscal year ended June 30, 2016.

The school entered into a capitalized lease for the acquisition of leasehold improvements. This capital lease has been recorded as a capital asset at the present value of the minimum lease payments as of the inception date. The capital lease is recorded as Leasehold Improvements of \$153,279 with accumulated depreciation of \$111,910. The School paid \$29,404 in principal and \$0 in interest for the fiscal year ended June 30, 2016.

	Principal Outstanding 6/30/2015	Additions	Reductions	Principal Outstanding 6/30/2016	Amounts Due Within one year
Equipment Lease	\$ 1,406	\$ 6,154	\$ (2,717)	\$ 4,843	\$ 3,395
Leasehold Improvements	70,773	-	(29,404)	41,369	27,448
Total Long-Term Liabilities	<u>\$ 72,179</u>	<u>\$ 6,154</u>	<u>\$ (32,121)</u>	<u>\$ 46,212</u>	<u>\$ 30,843</u>

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

9. CAPITALIZED LEASE OBLIGATIONS (Continued)

Fiscal Year	Capital Lease
2017	31,668
2018	15,787
Total	47,455
Less: Amount Representing Interest	(1,243)
Present Value of Minimum Payments	\$ 46,212

10. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature.

Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

A. Net Pension Liability (Continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year would be included in *continuing fee payable* on the accrual basis of accounting.

B. Plan Description - School Employees Retirement System (SERS)

Plan Description – 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 on or after August 1, 2017*
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016

The School's contractually required contribution to SERS was \$55,628 for fiscal year 2016.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

C. Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service.

For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

C. Plan Description - State Teachers Retirement System (STRS) (Continued)

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, 2014, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$135,022 for fiscal year 2016.

D. 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, 2015, 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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 1,665,255	\$ 333,561	\$ 1,998,816
Proportion of the Net Pension Liability	0.00602544%	0.00584570%	
Pension Expense	\$ 119,576	\$ 43,767	\$ 163,343

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 71,490	\$ 4,478	\$ 75,968
Changes in proportion	576,062	123,324	699,386
School contributions subsequent to the measurement date	135,022	55,628	190,650
Total Deferred Outflows of Resources	\$ 782,574	\$ 183,430	\$ 966,004
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 34,759	\$ (6,116)	\$ 28,643
Total Deferred Inflows of Resources	\$ 34,759	\$ (6,116)	\$ 28,643

\$190,650 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	\$ 143,849	\$ 40,803	\$ 184,652
2018	143,849	40,803	184,652
2019	143,847	40,805	184,652
2020	181,249	11,508	192,757
	\$ 612,794	\$ 133,919	\$ 746,713

E. 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.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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 averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
	<u>100.00 %</u>	

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

F. Discount Rate

The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

G. Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 462,530	\$ 333,561	\$ 224,959

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 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

H. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

H. Actuarial Assumptions – STRS (Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	100.00 %	

I. Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

J. 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 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 2,313,165	\$ 1,665,255	\$ 1,117,351

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – On behalf of the School, CEG contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. 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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of 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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$225, \$2,563, and \$1,560, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

B. State Teachers Retirement System

Plan Description – On behalf of the School, CEG participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) 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 reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board 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. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$3,178, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

12. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

B. Full Time Equivalency

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 and 2015 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

13. SPONSORSHIP FEES

The School contracted with the Saint Aloysius Orphanage as its sponsor effective July 1, 2010. The Term of the Contract was from July 1, 2010 through June 30, 2015 and was renewed for one additional year ending June 30, 2016. SAO is paid three percent (3%) for the contractual period of state foundation revenue. Total fees for fiscal 2016 were \$102,660. In June 2016, the School and the Sponsor signed a new agreement for a term of one (1) year and will automatically renew for one (1) year terms through June 30, 2018. The school may terminate the agreement by sending notice 180 days prior to June 30. The Sponsor can terminate by sending notice by February 1st of the termination year.

14. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

15. DEPOSITS AND OPERATING LEASES – LESSEE DISCLOSURE

The school entered into a lease agreement during fiscal year 2014 with All Star Development, Inc. for the Euclid Ave facility. The term of the lease is for 3 years at \$11,625 per month with an increase in year three to \$11,875 per month. The school paid a deposit of \$23,250 to secure the facility and the deposit is listed on the financial statements. The school entered into a lease agreement with TMN LTD for the Lee Road facility in fiscal year 2014 for 4 years ending June 30, 2018. The base rate of the lease is \$9,433 per month. Total payments to TMN LTD were \$113,196.

16. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2016, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

17. SUBSEQUENT EVENTS

In November of 2016, the school terminated its management agreement with Cambridge Education group. The Board has taken over day to day operations of the school hire all staff directly.

In August 2016, the school incurred a mortgage outstanding with Liberty Bank of \$250,000. This Note is for the purpose of improvements to be used as an educational facility. Terms of the mortgage provide for monthly payments of \$4,726, principal and interest, for 60 months at an annual interest rate of 5.00%.

Invictus High School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS)			
School's Proportion of the Net Pension Liability	0.00602544%	0.00350674%	0.00350674%
School's Proportionate Share of the Net Pension Liability	\$ 1,665,255	\$ 852,961	\$ 1,016,041
School's Covered-Employee Payroll	\$ 497,614	\$ 317,762	\$ 323,015
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	334.65%	268.43%	314.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)			
School's Proportion of the Net Pension Liability	0.00584570%	0.00305900%	0.00305900%
School's Proportionate Share of the Net Pension Liability	\$ 333,561	\$ 154,814	\$ 181,909
School's Covered-Employee Payroll	\$ 172,572	\$ 97,915	\$ 72,153
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	193.29%	158.11%	252.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

Invictus High School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
State Teachers Retirement System (STRS)										
Contractually Required Contribution	\$ 135,022	\$ 69,666	\$ 41,309	\$ 41,992	\$ 56,169	\$ 70,225	\$ 86,626	\$ 73,174	\$ 67,936	\$ 87,612
Contributions in Relation to the Contractually Required Contribution	(135,022)	(69,666)	(41,309)	(41,992)	(56,169)	(70,225)	(86,626)	(73,174)	(67,936)	(87,612)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's Covered-Employee Payroll	\$ 964,443	\$ 497,614	\$ 317,762	\$ 323,015	\$ 432,069	\$ 540,192	\$ 666,354	\$ 562,877	\$ 522,585	\$ 673,938
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)										
Contractually Required Contribution	\$ 55,628	\$ 22,745	\$ 13,571	\$ 9,986	\$ 8,929	\$ 9,494	\$ 12,172	\$ 9,027	\$ 8,334	n/a
Contributions in Relation to the Contractually Required Contribution	(55,628)	(22,745)	(13,571)	(9,986)	(8,929)	(9,494)	(12,172)	(9,027)	(8,334)	n/a
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's Covered-Employee Payroll	\$ 397,343	\$ 172,572	\$ 97,915	\$ 72,153	\$ 66,387	\$ 75,529	\$ 89,897	\$ 91,738	\$ 84,868	n/a
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	n/a

n/a - Information prior to 2008 is not available.

Statistical Section

STATISTICAL SECTION

This part of the **Invictus High School's** comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the School's overall financial health.

Contents

Financial Trends

This schedule contains trend information to help the reader understand how the School's overall expenses by class compared with the expenditure per pupil have changed over time.

- Operating Expenses by Category
- State Basic Aid – Per Pupil Funding

Revenue Capacity

This schedule contains information to help the reader assess the affordability of the School's most significant revenue sources the state aid and grants.

- Operating and Non-Operating Revenues

Enrollment Trends

This schedule contains information to help the reader understand the changes in enrollment over time.

- Full-Time Equivalent (FTE) Enrollment

Revenue by Grants Sources

This schedule contains information to help the reader understand the changes in revenues by grant source.

- Grant Revenues by Source

Net Position Trends

This schedule offers information to help the reader understand the funds invested in capital assets versus the unrestricted funds remaining for future expenditures.

- Net Position

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the School's financial activities take place.

- Student Population by Resident District
- Miscellaneous Statistics
- Principal Employers

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The School implemented GASB Statement 34 for the year ended June 30, 2004.

Invictus High School
Operating Expenses by Category
Last Ten Fiscal Years

Fiscal Year

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Purchased Services Management Fees	\$ 608,098	\$ 466,524	\$ 265,720	\$ 120,083	\$1,577,524	\$1,706,884	\$2,168,204	\$2,112,576	\$1,592,317	\$2,164,069
Purchased Services Salaries and Benefits	\$ 1,431,380	\$ 849,474	\$ 516,828	\$ 461,188	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Purchased Services Grant Programs	\$ -	\$ -	\$ -	\$ -	\$ 331,888	\$ 723,876	\$ 692,078	\$ 292,448	\$ 218,063	\$ 341,724
Other Purchased Services	\$ 537,092	\$ 381,336	\$ 147,323	\$ 248,848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supplies, Furniture & Fixtures	\$ 240,281	\$ 236,255	\$ 108,165	\$ 37,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sponsor Fees	\$ 102,660	\$ 80,533	\$ 46,767	\$ 20,618	\$ 48,681	\$ 52,939	\$ 11,476	\$ 11,337	\$ 8,670	\$ 11,946
Legal & Professional	\$ 353,315	\$ 223,115	\$ 312,028	\$ 197,871	\$ 215,164	\$ 59,944	\$ 54,895	\$ 63,688	\$ 79,508	\$ 67,822
Insurance	\$ -	\$ -	\$ 8,645	\$ -	\$ 1,616	\$ 1,643	\$ 1,626	\$ 1,811	\$ 1,490	\$ 1,490
Auditing & Accounting	\$ 41,783	\$ 40,461	\$ 40,020	\$ 40,490	\$ 30,207	\$ 27,607	\$ 27,244	\$ 25,212	\$ 23,844	\$ 16,842
Board of Education	\$ -	\$ -	\$ -	\$ -	\$ 26,950	\$ 9,345	\$ 17,301	\$ 2,819	\$ 2,580	\$ 28,441
Depreciation & Other	\$ 172,981	\$ 191,157	\$ 69,905	\$ 48,061	\$ 122,393	\$ 7,191	\$ 7,807	\$ 5,421	\$ 1,605	\$ 4,620
Total	\$ 3,487,590	\$2,468,855	\$1,515,401	\$1,174,325	\$2,354,423	\$2,589,429	\$2,980,631	\$2,515,312	\$1,928,077	\$2,636,954
Enrollment	358	332	172	88	215	245	320	268	229	314
Per Pupil Expenditure	\$ 9,742	\$ 7,436	\$ 8,810	\$ 13,345	\$ 10,951	\$ 10,569	\$ 9,314	\$ 9,385	\$ 8,420	\$ 8,398

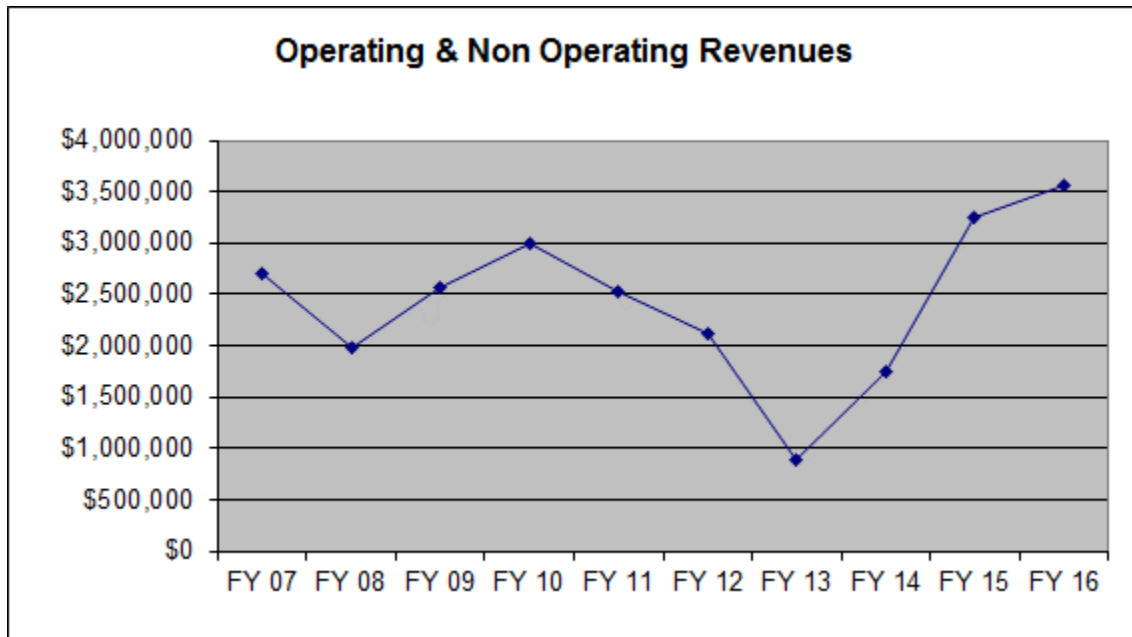
Note 1: In 2013 the school changed management companies. The new EMO charges a base fee of 16% and the board reimburses all salaries and benefits.

Note 2: The School began enrolling students in FY 00.

Source: School Financial Records

Invictus High School
 Operating and Non-Operating Revenues
 Last Ten Fiscal Years

<u>Year</u>	<u>State Aid</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
2016	\$ 3,267,625	\$ 286,366	\$ 2,246	\$ 3,556,237
2015	\$ 3,005,149	\$ 233,606	\$ 2,240	\$ 3,240,995
2014	\$ 1,493,836	\$ 240,618	\$ 4,286	\$ 1,738,740
2013	\$ 703,387	\$ 169,840	\$ 5,257	\$ 878,484
2012	\$ 1,669,327	\$ 444,648	\$ 6,486	\$ 2,120,461
2011	\$ 1,796,720	\$ 730,705	\$ 3,124	\$ 2,530,549
2010	\$ 2,295,185	\$ 692,078	\$ 6,711	\$ 2,993,974
2009	\$ 2,267,491	\$ 292,448	\$ 7,817	\$ 2,567,756
2008	\$ 1,733,981	\$ 218,063	\$ 21,296	\$ 1,973,340
2007	\$ 2,323,616	\$ 341,724	\$ 29,486	\$ 2,694,826

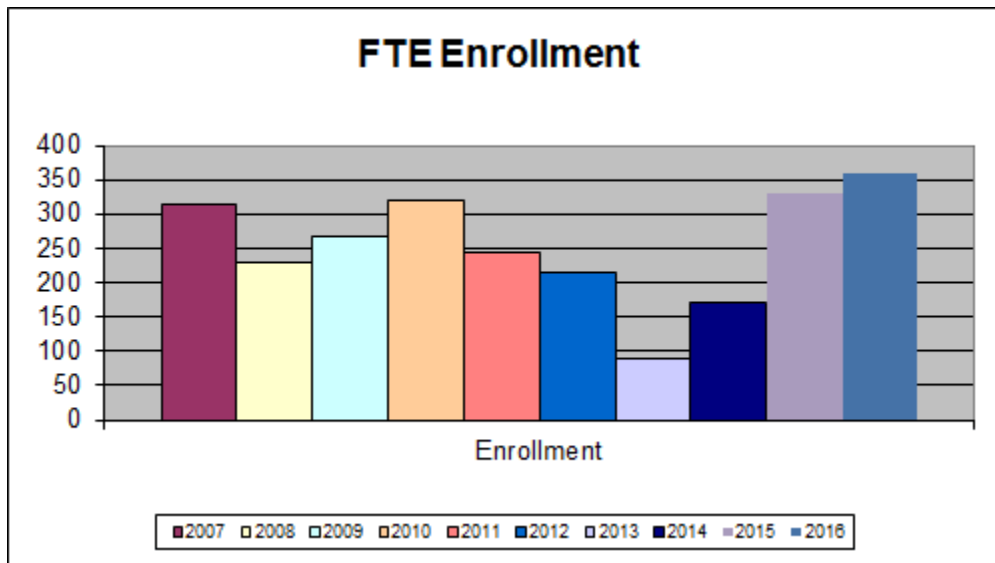


Note: The School began enrolling students in FY 00.

Source: School Financial Records

Invictus High School
Full-Time Equivalent (FTE) Enrollment
Last Ten Fiscal Years

Year	Enrollment
2016	358
2015	332
2014	175
2013	88
2012	215
2011	245
2010	320
2009	268
2008	229
2007	314



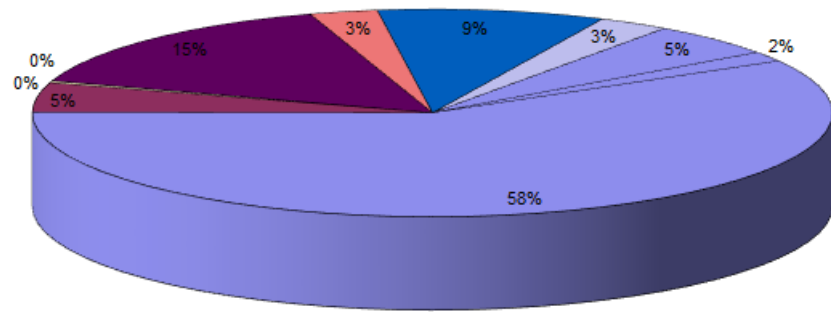
Note: The School began enrolling students in FY 00.

Source: Ohio Department of Education

Invictus High School Grant Revenues by Source Last Ten Fiscal Years

Year	Title I	Title II	Title IV	Title V	IDEA-B	National School Lunch	State Stabilization	Education Jobs	Race to the Top	Misc State Grants	Total
2016	\$155,650	\$14,511	\$ -	\$ -	\$ 68,050	\$47,266	\$ -	\$ -	\$ -	\$ 889	\$286,366
2015	\$ 76,581	\$16,901	\$ -	\$ -	\$ 45,599	\$45,882	\$ -	\$ -	\$43,659	\$ 4,984	\$233,606
2014	\$125,469	\$ 2,944	\$ -	\$ -	\$ 41,088	\$26,184	\$ -	\$ -	\$43,066	\$ 1,867	\$240,618
2013	\$ 63,991	\$15,353	\$ -	\$ -	\$ 37,236	\$ 2,096	\$ -	\$ -	\$51,164	\$ -	\$169,840
2012	\$235,881	\$18,455	\$ -	\$ -	\$ 47,434	\$18,300	\$ -	\$ 89,649	\$34,581	\$ 350	\$444,648
2011	\$471,222	\$15,822	\$ 175	\$ -	\$ 77,538	\$ -	\$150,470	\$ 6,828	\$ 3,650	\$ 5,000	\$730,705
2010	\$417,768	\$23,483	\$1,631	\$ -	\$ 85,079	\$ -	\$159,118	\$ -	\$ -	\$ 5,000	\$692,078
2009	\$221,551	\$20,415	\$1,212	\$ 14	\$ 41,666	\$ -	\$ -	\$ -	\$ -	\$ 7,590	\$292,448
2008	\$117,523	\$17,898	\$3,883	\$ 601	\$ 71,268	\$ -	\$ -	\$ -	\$ -	\$ 6,890	\$218,063
2007	\$234,537	\$23,824	\$2,239	\$ 474	\$ 59,563	\$ -	\$ -	\$ -	\$ -	\$21,087	\$341,724

Grant Revenues By Source All Years Combined



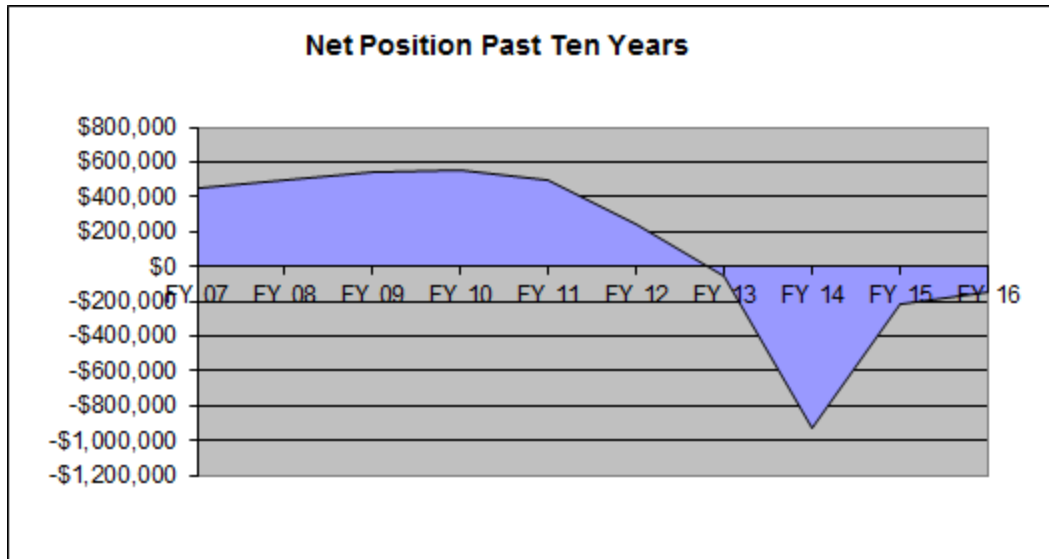
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|------------------------------|------------------|---------------------------------|
| ■ Title I | ■ Title II | □ Title IV |
| □ Title V | ■ IDEA-B | ■ National School Lunch Program |
| ■ SFSF | □ Education Jobs | ■ Race to the Top |
| ■ Miscellaneous State Grants | | |

Note: The School began enrolling students in FY 00.

Source: School Financial Records

Invictus High School
Net Position
Last Ten Fiscal Years

Year	Invested in Capital Assets	Unrestricted	Total	Change in Net Position
2016	\$ 998,198	\$(1,149,552)	\$(151,354)	\$ 67,230
2015	\$ 137,723	\$ (356,307)	\$(218,584)	\$ 771,472
2014	\$ 200,423	\$(1,190,479)	\$(990,056)	\$(211,463)
2013	\$ 257,185	\$ (315,634)	\$ (58,449)	\$(298,700)
2012	\$ -	\$ 240,251	\$ 240,251	\$(258,962)
2011	\$ -	\$ 499,213	\$ 499,213	\$ (58,880)
2010	\$ -	\$ 558,093	\$ 558,093	\$ 13,343
2009	\$ -	\$ 544,750	\$ 544,750	\$ 52,444
2008	\$ -	\$ 492,306	\$ 492,306	\$ 45,263
2007	\$ -	\$ 447,043	\$ 447,043	\$ 57,872



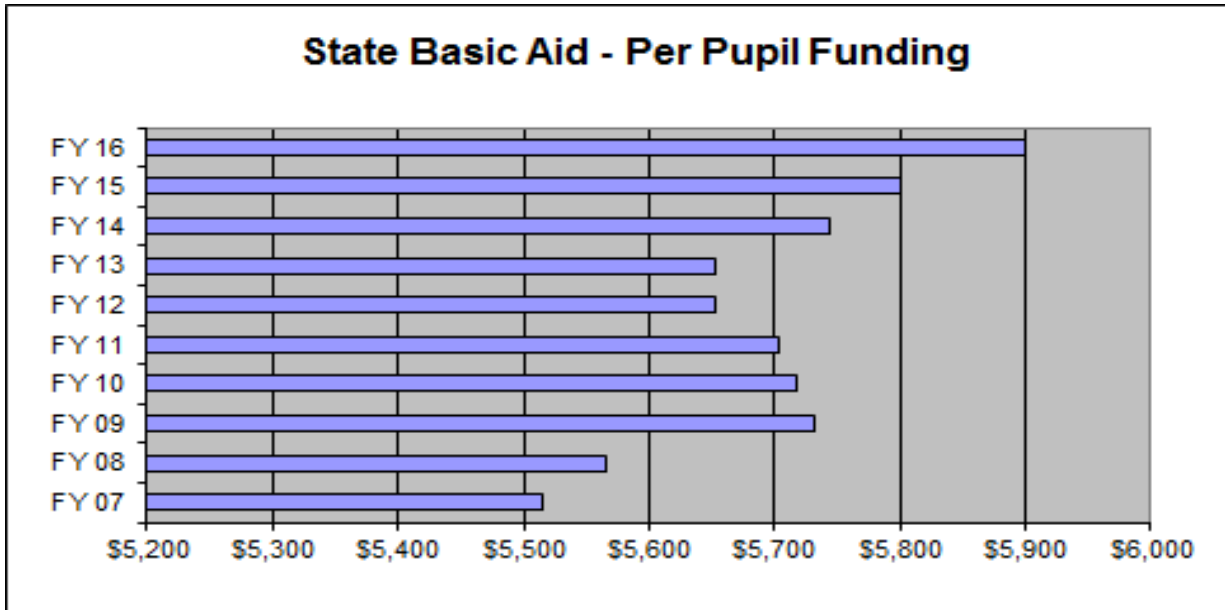
Note 1: A prior period adjustment of \$(1,143,070) was recorded in FY 14 for implementation of GASB 68

Note 2: The School began enrolling students in FY 00.

Source: School Financial Records

Invictus High School
 State Basic Aid – Per Pupil Funding Amount
 Last Ten Fiscal Years

<u>Year</u>	<u>Per Pupil Funding</u>	<u>Cost of Doing Business</u>	<u>Total Per Pupil</u>
2016	\$ 5,900	-	\$ 5,900
2015	\$ 5,800	-	\$ 5,800
2014	\$ 5,745	-	\$ 5,745
2013	\$ 5,653	-	\$ 5,653
2012	\$ 5,653	-	\$ 5,653
2011	\$ 5,703	-	\$ 5,703
2010	\$ 5,718	-	\$ 5,718
2009	\$ 5,732	-	\$ 5,732
2008	\$ 5,565	-	\$ 5,565
2007	\$ 5,403	1.0209	\$ 5,516



Note 1: In addition to the above, the School also receives other sources of State Aid including (but not limited to) Career Based Intervention Funding, Poverty Based Assistance, Parity Aid, and Special Education funding. The revenues have collectively been identified on the Statement of Revenues, Expenses, and Changes in Net Position as “State Aid”.

The Cost of Doing Business Factors is determined by the State of Ohio and varies by region.

Note 2: The School began enrolling students in FY 00.

Note 3: The Ohio Department of Education eliminated the cost of doing business factor in fiscal year 2008.

Source: Ohio Department of Education

Invictus High School
 Student Population by Resident District
 2016 Fiscal Year

<u>Resident District</u>	<u>%</u>
Akron	0.06%
Bedford	1.45%
Cleveland	73.64%
Cleveland Heights	2.73%
East Cleveland	3.88%
Euclid	3.01%
Garfield Heights	2.33%
Maple Heights	6.58%
Shaker Heights	1.46%
South Euclid-Lyndhurst	3.24%
All Other Districts	1.62%

Note: The School has open enrollment and draws its population from a large surrounding area. The traditional school district that the student resides in is referred to as the Resident District.

Districts representing less than 1 percent of the student population are combined under the heading “All Other Districts”.

Source: Ohio Department of Education

Invictus High School
Miscellaneous Statistics

School Address: 3122 Euclid Avenue
Cleveland, Ohio 44115

Square Footage: 15,000 sq. ft.

Date of Incorporation: 7/22/1999

Instructional Staff: 11

Total FY 16 Staff: 20



**Note: All Staff are employees of CEG.
See Note 8 in Notes
to the Basic Financial Statements.**

**Instructional Staff/
Student Ratio** 33:1

**Number of Graduates
since inception:** 1095

**Percent of Low
Income Students:** 86.93%

Source: School Records

Invictus High School Principal Employers

Cuyahoga County, OH

Principal Employers

(Ranked by the Number of Full-Time Equivalent Employees)
Current Year and Ten Years Ago

Employer	2016			2007	
	Number of Employees	Rank	% of Total Employment	Number of Employees	% of Total Employment
Cleveland Clinic Health System	32,269	1	5.29%		
University Hospitals Health System	15,447	2	2.53%		
U.S. Office of Personnel Management	11,536	3	1.89%		
Progressive Corporation	8,750	4	1.43%		
Cuyahoga County	7,772	5	1.28%		
Cleveland Metropolitan School District	7,203	6	1.18%		
City of Cleveland	6,666	7	1.09%		
Metro Health System	5,839	8	0.96%		
KeyCorp	4,708	9	0.77%		
Case Western Reserve University	4,443	10	0.73%		
Cleveland Clinic Health System				28,461	4.36%
University Hospitals Health System				15,904	2.44%
Cuyahoga County				9,295	1.42%
U.S. Office of Personnel Management				9,172	1.41%
Progressive Corp				8,796	1.35%
City of Cleveland				8,327	1.28%
Cleveland Municipal School District				7,442	1.14%
KeyCorp				6,615	1.01%
National City Corporation				6,563	1.01%
MetroHealth System				5,627	0.86%
Total Employees	<u>104,633</u>		<u>17.15%</u>	<u>106,202</u>	<u>16.28%</u>
Total Employment within the City	610,000			652,400	

Source: http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/2015-CCFinancialAudit.pdf



Rea & associates *a brighter way*

Invictus High School Cuyahoga County, Ohio

*Reports Issued Pursuant to
Government Auditing Standards*

For the Fiscal Year Ended
June 30, 2016

**Invictus High School
Cuyahoga County, Ohio**

Reports Issued Pursuant to Government Auditing Standards

June 30, 2016

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December 28, 2016

To the Board of Directors
Invictus High School
Cuyahoga County, Ohio
3122 Euclid Avenue
Cleveland, OH 44115

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*

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 the Invictus High School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 28, 2016.

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) to determine the 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 determination of financial statement amounts. 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.

Cambridge, Ohio



Dave Yost • Auditor of State

LIFE SKILLS – INVICTUS HIGH SCHOOL

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 11, 2017**