Audited Financial Report

For the Year Ended June 30, 2017

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, 2016 through June 30, 2017. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Board Stipend Overpayment- Finding for Recovery Repaid Under Audit

Ohio Rev. Code § 3314.02(E)(5) states that the governing authority of a start-up or conversion community school may provide by resolution for the compensation of its members. However, no individual who serves on the governing authority of a start-up or conversion community school shall be compensated more than one hundred twenty-five dollars per meeting of that governing authority and no such individual shall be compensated more than a total amount of five thousand dollars per year for all governing authorities upon which the individual serves. Each member of the governing authority may be paid compensation for attendance at an approved training program, provided that such compensation shall not exceed sixty dollars a day for attendance at a training program three hours or less in length and one hundred twenty-five dollars a day for attendance at a training program longer than three hours in length.

Antoine Williams served as a board member for both the Green Inspiration Academy and the Invictus High School. Deidre Cummings served as a board member for both Invictus High School and Lincoln Preparatory Academy. Both Board members were paid over $5,000 during the fiscal year of July 1, 2016 through June 30, 2017. See the table below for a summary of the overpayments made by Invictus High School.

Board Member	**Overpayment by Invictus High School**
Antoine Williams	$375
Deidre Cummings	$1,750
Total	$2,125

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued in favor of the Invictus High School against Antoine Williams for $375 and Deidre Cummings for $1,750.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which an illegal expenditure is discovered, is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code § 9.39; *State, ex. rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Treasurer, Brian Adams, signed the warrants resulting in improper payments. Brian Adams will be jointly and severally liable in the amount of $2,125 and in favor of the Invictus High School. Brian Adams, Treasurer, paid $1,750 with check number 3444 and paid $375 with check number 3445 to Invictus High School on December 28, 2017.

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.

Dave Yost
Auditor of State

March 19, 2018

INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO

AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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January 31, 2018

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, 2017, 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, 2017, 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.

Emphasis of a Matter

As described in Note 18, the School restated the beginning net position balance to account for the reallocation of certain management company employees reported under one employer code within the state teacher's retirement system, and their effect on the net pension liability, deferred outflows of resources, and deferred inflows of resources. Our opinion is not modified with respect to this matter.

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, 33, and 34, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Kea & Associates, Inc.

Cambridge, Ohio

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
(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, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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 decreased $399,995, which represents a 157.8 percent decrease from 2016. The decrease is due to increased pension expenses in 2017.

- Total assets decreased $197,374, which represents a 11.5 percent decrease from 2016. This was primarily due to a decrease in cash from the previous year.

- Liabilities increased $1,269,597, which represents a 44.6 percent increase from 2016. 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 2017. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows 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 2017 and 2016.

(Table 1)
Statement of Net Position

	2017	Restated 2016
Assets		
Current Assets	$ 429,947	$ 650,707
Non-Current Assets	23,250	23,250
Capital Assets, Net	1,068,396	1,045,010
Total Assets	1,521,593	1,718,967
Deferred Outflows of Resources		
Pension Requirements	1,941,571	1,008,236
Liabilities		
Current Liabilities	378,388	792,897
Long Term Liabilities	3,738,188	2,054,082
Total Liabilities	4,116,576	2,846,979
Deferred Inflows of Resources		
Pension Requirements	-	133,641
Net Position		
Net Investment in Capital Assets	839,900	998,198
Unrestricted	(1,493,312)	(1,251,615)
Total Net Position	$ (653,412)	$ (253,417)

In total, net position decreased $399,995, which represents a 157.8 percent decrease from 2016. The decrease is due to increased pension expenses in 2017. Total assets decreased $197,374, which represents an 11.5 percent decrease from 2016. This was primarily due to a decrease in cash from operations. Liabilities increased $1,269,597, which represents a 44.6 percent increase from 2016. The increase in liabilities is a direct result of increased Net Pension Liabilities. Current liabilities decreased as a result of payments made on accounts payable and continuing fees payable.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal years 2017 and 2016, 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.

(Table 2)
Change in Net Position

	2017	Restated 2016
Operating Revenues		
State Aid	$3,433,005	$3,193,775
Casino Aid	8,908	20,183
Facilities Funding	82,937	53,667
Non-Operating Revenue		
Grants	221,209	286,366
Interest Income	133	779
Miscellaneous	6,634	1,467
Total Revenues	3,752,826	3,556,237
Operating Expenses		
Purchased Services: Salaries and Benefits	530,791	1,533,443
Purchased Services: Management Fees	189,891	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	124,747	91,625
Other Operating Expenses	-	81,356
Salaries	933,799	-
Fringe Benefits	789,752	-
Purchased Services	1,305,581	-
Materials and Supplies	168,141	-
Other	91,551	-
Non-Operating Expenses		
Interest and Fiscal Charges	18,568	1,417
Total Expenses	4,152,821	3,591,070
Change in Net Position	$ (399,995)	$ (34,833)

The primary reason for an increase in overall revenues from 2016 is attributable to the increase in enrollment to 370 students (and increase of 12 students from fiscal year 2016). The School's expenses also increased as a result of the increase in enrollment as well as taking over operations directly from Cambridge Education Group (see note 8), in November 2016.

In November 2016, the School terminated their management agreement with Cambridge Education Group. As a result of the change in management company, the classification of operating expenses has changed.

During a prior fiscal year, 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.

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 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 2017 statements report pension expense of $687,132.

Debt

At June 30, 2017, the School issued a $250,000 payable, of which $212,657 is outstanding debt due to Liberty Bank for the mortgage, which was used for improvements to the educational facility. See Note 10 in the notes to the basic financial statements.

Capital Assets

At the end of fiscal year 2017, the School had a capital asset net book value of $1,068,396, with accumulated depreciation totaling $449,078. The capital assets are reported in the accompanying Statement of Net Position, at June 30, 2017.

(Table 3)
Capital Assets (Net of Depreciation)

	2017	2016
Leasehold Improvements	$ 37,533	$ 123,626
Buildings	879,444	803,253
Land	114,029	114,029
Furniture and Equipment	37,390	4,102
Total Capital Assets, Net	$ 1,068,396	$ 1,045,010

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 370 students (FTE) in 2017 (an increase of 12 students from 2016) 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 $9,526 in fiscal year 2017. 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, 2017

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 356,893
Grants Receivable	71,980
Sponsor Fee Receivable	1,074
Total Current Assets	429,947
Non-Current Assets:	
Leasehold Deposits	23,250
Non-Depreciable Capital Assets	114,029
Depreciable Capital Assets, net	954,367
Total Non-Current Assets	1,091,646
Total Assets	1,521,593
DEFERRED OUTFLOWS OF RESOURCES	
Pension Requirements	1,941,571
LIABILITIES	
Current Liabilities:	
Accounts Payable	128,649
State Funding Payable	35,789
Grants Funding Payable	56,454
Continuing Fees Payable	78,405
Intergovernmental Payable	17,333
Capital Lease Payable	14,383
Notes Payable	47,375
Total Current Liabilities	378,388
Long-Term Liabilities:	
Capital Lease Payable	1,456
Notes Payable	165,282
Net Pension Liability	3,571,450
Total Long-Term Liabilities	3,738,188
Total Liabilities	4,116,576
NET POSITION	
Net Investment in Capital Assets	839,900
Unrestricted	(1,493,312)
Total Net Position	$ (653,412)

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, 2017

OPERATING REVENUES	
State Aid	$3,433,005
Casino Aid	8,908
Facilities Funding	82,937
Total Operating Revenues	3,524,850
OPERATING EXPENSES	
Salaries	933,799
Fringe Benefits	789,752
Purchased Services: Salaries and Benefits	530,791
Purchased Services: Management Fees	189,891
Other Purchased Services	1,305,581
Materials and Supplies	168,141
Depreciation	124,747
Other	91,551
Total Operating Expenses	4,134,253
Operating Loss	(609,403)
NON-OPERATING REVENUE/(EXPENSES)	
Grants	221,209
Interest and Fiscal Charges	(18,568)
Miscellaneous	6,634
Interest Income	133
Total Non-Operating Revenue/(Expenses)	209,408
Change in Net Position	(399,995)
Net Position Beginning of Year, Restated See Note 18	(253,417)
Net Position End of Year	$ (653,412)

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, 2017

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from State of Ohio	$ 3,521,975
Cash Payments to Employees for Services	(906,009)
Cash Payments for Employee Benefits	(323,391)
Cash Payments for Goods and Services	(2,654,422)
Other Cash Payments	(91,551)
Net Cash Used For Operating Activities	(453,398)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Miscellaneous Cash Receipts	6,634
Cash Received from Grant Programs	157,105
Net Cash Provided By Noncapital Financing Activities	163,739
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Cash Received from Notes Payable	250,000
Cash Payments for Capital Assets	(148,133)
Cash Payments for Interest and Fiscal Charges	(18,568)
Cash Payments for Principal on Notes and Leases	(68,316)
Net Cash Provided By Capital Financing Activities	14,983
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Received from Interest on Investments	133
Net Decrease in Cash and Cash Equivalents	(274,543)
Cash and Cash Equivalents Beginning of Year	631,436
Cash and Cash Equivalents End of Year	$ 356,893
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	$ (609,403)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	124,747
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
Sponsor Fees Receivable	(1,074)
Receivable from Schools	938
Accounts Payable	(387,003)
State Funding Payable	(2,875)
Continuing Fee Payable	(72,879)
Retirement Expense Receivable/Intergovernmental Payable	27,790
Net Pension Liability	1,533,337
Deferred Outflows of Resources	(933,335)
Deferred Inflows of Resources	(133,641)
Total Adjustments	156,005
Net Cash Used For Operating Activities	$ (453,398)

See accompanying notes to the basic financial statements

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 370 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.

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 2017. 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 and a money market account. 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.

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Facilities Aid, Casino Aid, 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.

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 2017 school year totaled $3,746,059.

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 $1,068,396. All capital assets except land are depreciated. 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.

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 positon 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 11.

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. There were no deferred inflows of resources related to pension reported on the statement of net position (see Note 11).

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all School deposits was $356,893 and its bank balance was $373,301. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, None of the School's bank balance was exposed to custodial risk as discussed below. All of the bank balance was covered by the Federal Deposit Insurance Corporation as the School had accounts at different and multiple banks. 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.

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 2017, the School and public depositories complied with the provisions of these statutes.

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 and is awaiting final reconciliation.

5. GRANTS RECEIVABLE/PAYABLE

The School has recorded "Grants Receivable" in the amount of $71,980 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2017.

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, 2017.

Both are reported in the Statement of Net Position.

6. CAPITAL ASSETS AND DEPRECIATION

The summary of capital assets at June 30, 2017 follows:

	Balance 06/30/16	Additions	Retirements	Balance 06/30/17
Capital Assets Not Being Depreciated				
Land	$ 114,029	$ -	$ -	$ 114,029
Capital Assets Being Depreciated				
Leasehold Improvements	430,463	-	-	430,463
Furniture and Equipment	18,299	48,932	-	67,231
Buildings	806,550	99,201	-	905,751
Total Capital Assets Being Depreciated	1,255,312	148,133	-	1,403,445
Less Accumulated Depreciation				
Leasehold Improvements	(306,837)	(86,093)		(392,930)
Furniture and Equipment	(14,197)	(15,644)	-	(29,841)
Buildings	(3,297)	(23,010)	-	(26,307)
Total Accumulated Depreciation	(324,331)	(124,747)	-	(449,078)
Net Total Capital Assets	$1,045,010	$ 23,386	$ -	$1,068,396

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), which the School retained subsequent to departure in November 2016. 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.

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, 2016, 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.

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. CEG subsequently sued the Board for breaking the contract. The effects of this lawsuit are not presently determinable. Management fees paid to CEG through October 2016 were $189,891

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 $10,450. The School paid $1,772 in principal and $1,006 in interest for the fiscal year ended June 30, 2017.

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 $120,069. The School paid $29,201 in principal and $0 in interest for the fiscal year ended June 30, 2017.

Fiscal Year	Capital Lease
2018	$ 16,011
2019	1,456
Total	17,467
Less: Amount Representing Interest	(1,628)
Present Value of minimum payments	$ 15,839

10. LONG-TERM LIABILITIES

A summary of long-term obligation on the mortgage outstanding for land, buildings and improvements at June 30, 2017, is as follows:

	Principal Outstanding 6/30/2016	Additions	Reductions	Principal Outstanding 6/30/2017	Amounts Due Within one year
Equipment Lease	$ 5,443		$ (1,772)	$ 3,671	$ 2,215
Liberty Bank	-	250,000	(37,343)	212,657	47,375
Leasehold Improvements	41,369	-	(29,201)	12,168	12,168
Total Long-Term Liabilities	$ 46,812	$ 250,000	$ (68,316)	$ 228,496	$ 61,758

Liberty Bank – In September 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%., At June 30, 2017, the principal balance was $212,657. Interest and principal payments totaling $54,995 were made for the year ending June 30, 2017. Interest comprised of $17,562. See below for the amortization table for the outstanding obligation at June 30, 2017.

Capital Leases – See Note 9 for related information

The Table below summarizes all long term obligations as of fiscal year 2017:

Year(s)	Principal	Interest	Total
2018	$ 61,758	$10,127	$ 71,885
2019	50,388	6,383	56,771
2020	51,787	4,088	55,875
2021	54,145	1,730	55,875
2022	10,418	52	10,470
	$228,496	$22,380	$250,876

11. 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.

11. DEFINED BENEFIT PENSION PLANS (Continued)

A. Net Pension Liability (Continued)

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.

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 *intergovernmental 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.

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

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, 2017, 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 2017

The School's contractually required contribution to SERS was $ 56,408 for fiscal year 2017.

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.

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

11. DEFINED BENEFIT PENSION PLANS (Continued)

The School's contractually required contribution to STRS was $144,004 for fiscal year 2017.

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 July 1, 2016, 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:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 2,772,402	$ 799,048	$ 3,571,450
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00828250%	0.01091730%	
Prior Measurement Date	0.00616762%	0.00584570%	
Change in Proportionate Share	0.00211488%	0.00507160%	
Pension Expense	$ 483,135	$ 203,637	$ 686,772

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, the School reported deferred outflows of resources related to pensions from the following sources:

11. 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	$ 112,019	$ 10,775	$ 122,794
Net Difference between Projected and Actual Earnings on Pension Plan Investments	230,184	65,911	296,095
Changes of Assumptions	0	53,341	53,341
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	963,838	305,091	1,268,929
School Contributions Subsequent to the Measurement Date	144,004	56,408	200,412
Total Deferred Outflows of Resources	$ 1,450,045	$ 491,526	$ 1,941,571

$200,412 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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11. 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
Fiscal Year Ending June 30:			
2018	$ 334,427	$ 153,250	$ 487,677
2019	334,427	153,201	487,628
2020	422,759	109,719	532,478
2021	214,428	18,948	233,376
	$ 1,306,041	$ 435,118	$ 1,741,159

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.

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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increase, including Inflation	3.5 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

11. DEFINED BENEFIT PENSION PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

F. Discount Rate

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

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's Proportionate Share of the Net Pension Liability	$ 1,057,887	$ 799,048	$ 582,385

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.75 percent) than the current rate.

H. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Project Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 commences on the fifth anniversary of the 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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

11. 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 %	

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

I. Discount Rate

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

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	$ 3,684,298	$ 2,772,402	$ 2,003,165

11. DEFINED BENEFIT PENSION PLANS (Continued)

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School's net pension liability is expected to be significant.

12. 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 HMOs, PPOs, 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 2017, 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, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care for the fiscal year ended June 30, 2015, was $2,563. The full amount has been contributed for fiscal year 2015.

12. POSTEMPLOYMENT BENEFITS (Continued)

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.

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 2017, 2016, and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to healthcare in the last three fiscal years.

13. 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

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the School for fiscal year 2017.

As of the date of this report, all ODE through fiscal year 2017 have been completed.

In addition, the School's contracts with their Sponsors and Management Company require payment based on revenues from the state. As discussed above, all ODE adjustments through fiscal year 2017 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

13. CONTINGENCIES (Continued)

C. Litigation

In February 2009, the School Filed a Lawsuit against the WHLS and its affiliates for matters related to the management agreement. The effect of this lawsuit is presently not determinable.

In December 2016, Cambridge Education Group filed a lawsuit against the school for the termination of its management agreement. The effect of this lawsuit is presently not determinable.

14. 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, 2014 and was renewed for one additional year ending June 30, 2015. SAO is paid three percent (3%) for the contractual period of state foundation revenue. Total fees for fiscal 2017 were $101,829. 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.

15. TAX EXEMPT STATUS

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

16. 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 which was reduced to $7,000 per month in February 2017 for the remainder of the lease. Total payments to TMN LTD were $82,165.

17. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School implemented GASB Statement No. 77 "Tax Abatement Disclosures" which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government's ability to raise resources in the future, by reporting (1) the government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not have an effect on the financial statements of the School.

17. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School implemented GASB Statement No. 78 “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans” which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School

For fiscal year 2017, the School implemented GASB Statement No. 80 “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14” which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 82 “Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73” which addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement was incorporated in the School’s financial statements but did not have an effect on beginning net position.

18. RESTATEMENT OF NET POSITION

Certain Cambridge Education Group employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Cambridge Education Group. Therefore, it has been determined the net pension liability, deferred outflows of resources, deferred inflows of resources and the related pension expense should be allocated to each of the schools. This allocation had the following effect on beginning net position:

Previously Reported Net Position	$	(151,354)
Adjustments:		
Deferred Outflows - Pension		42,232
Net Pension Liability		(39,297)
Deferred Inflows – Pension		(104,998)
Restated Net Position, July 1, 2016	$	(253,417)

19. OTHER PURCHASED SERVICES

For the period July 1, 2016 through June 30, 2017, purchased service expenses were for the following services:

	2017
Professional Services	$ 773,483
Property Services	290,217
Travel and Professional Development	4,736
Communications	111,577
Utilities	60,307
Trade Services	60,351
Tuition Payments	2,612
Transportation	2,298
Total	$1,305,581

20. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2017, Cambridge Education Group, LLC and its affiliates incurred the following expenses on behalf of the School

Invictus High School	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Vocational Instruction (1300 Function codes)	Other Instruction (1400 and 1900 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct expenses:							
Salaries & wages (100 object codes)	$ 243,644	$ 34,533	$ 21,000	$ -	$ 175,527	$ -	$ 474,704
Employees' benefits (200 object codes)	28,100	4,520	1,757	-	17,294	-	51,671
Professional & technical services (410 object codes)	-	-	-	-	-	26,721	26,721
Supplies (500 object codes)	65	-	-	-	-	1,806	1,871
Other direct costs (All other object codes)	-	-	-	-	-	9,024	9,024
Overhead	-	-	-	-	39,669	20,840	60,509
Total expenses	$ 271,809	$ 39,053	$ 22,757	$ -	$ 232,490	$ 58,391	$ 624,500

Note to the Schedule of Management Company Expenses: Cambridge Education Group charges expenses benefiting more than one school (i.e. overhead) are pro-rated based on full time equivalent (FTE) head count as of June 30, 2017 by each school it manages. Employee Benefits do not include pension expenses. Under management agreement with the school, the school is responsible for pension expenses for direct school staff.

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

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
School's Proportion of the Net Pension Liability	0.00828250%	0.00616762%	0.00350674%	0.00350674%
School's Proportionate Share of the Net Pension Liability	$ 2,772,402	$ 1,704,550	$ 852,961	$ 1,016,041
School's Covered Payroll	$ 983,057	$ 497,614	$ 317,762	$ 323,015
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	282.02%	342.54%	268.43%	314.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
School's Proportion of the Net Pension Liability	0.01091730%	0.00584570%	0.00305900%	0.00305900%
School's Proportionate Share of the Net Pension Liability	$ 799,048	$ 333,561	$ 154,814	$ 181,909
School's Covered Payroll	$ 397,343	$ 172,572	$ 97,915	$ 72,153
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	201.10%	193.29%	158.11%	252.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.
(2) Certain Cambridge Education Group (CEG) employees are reported under one employer code with the state retirement systems, However, these employees provide services to all schools managed by CEG. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 and 2017 amounts have been updated, however, information was not available to update fiscal years 2015 and prior.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
State Teachers Retirement System (STRS)										
Contractually Required Contribution	$ 144,004	$ 137,628	$ 69,666	$ 41,309	$ 41,992	$ 56,169	$ 70,225	$ 86,626	$ 73,174	$ 67,936
Contributions in Relation to the Contractually Required Contribution	(144,004)	(137,628)	(69,666)	(41,309)	(41,992)	(56,169)	(70,225)	(86,626)	(73,174)	(67,936)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 1,028,600	$ 983,057	$ 497,614	$ 317,762	$ 323,015	$ 432,069	$ 540,192	$ 666,354	$ 562,877	$ 522,585
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)										
Contractually Required Contribution	$ 56,408	$ 55,628	$ 22,745	$ 13,571	$ 9,986	$ 8,929	$ 9,494	$ 12,172	$ 9,027	$ 8,334
Contributions in Relation to the Contractually Required Contribution	(56,408)	(55,628)	(22,745)	(13,571)	(9,986)	(8,929)	(9,494)	(12,172)	(9,027)	(8,334)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 402,914	$ 397,343	$ 172,572	$ 97,915	$ 72,153	$ 66,387	$ 75,529	$ 89,897	$ 91,738	$ 84,868
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

Note: Certain Cambridge Education Group (CEG) employees are reported under one employer code with the state retirement systems, However, these employees provide services to all schools managed by CEG. Therefore, it has been determined the contributions related to these employees should be allocated to each of the schools. Fiscal years 2016 and 2017 amounts have been updated, however, information was not available to update fiscal years 2015 and prior.

January 31, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 31, 2018, wherein we noted the School restated the beginning net position balance to account for a reallocation of certain management company employees reported under one employer code within the state teacher's retirement system.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as finding 2017-001 that we consider to be a material weakness.

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*.

School's Response to the Finding

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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

Finding Number: 2017-001

Material Weakness: Internal Control over Financial Reporting

Criteria: The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. AU-C 265 establishes standards, responsibilities, and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, AU-C 265 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Conditions: Material audit adjustments were made to the financial statements presented for audit and the schedule of management company expenses footnote was originally omitted.

Cause: During the fiscal year, the Invictus High School (the School) terminated their management company agreement. When the School prepared the financial statements for the fiscal year, the classification of the expenses was not consistent with prior year classifications for the period in which the management company agreement was in place and material adjustments were required to classify these balances appropriately. In addition, the footnote for the schedule of management company expenses was omitted from presentation.

Effect: $720,682 of the expenses per the financial statements presented for audit for the School were reclassified to "Purchased Services: Salaries and Benefits" or "Purchased Services: Management Fees" on the Statement of Revenues, Expenses, and Changes in Net Position. The schedule of management company expenses footnote was added to the report.

Recommendation: We recommend that the Treasurer perform a final review of the statements and notes of the School to identify and correct any errors and omissions, and review for any significant changes with contracts to ensure the financial statements and notes to the financial statements for the School are complete and accurate.

Management's Response: The Treasurer will review the financial statements and notes to the financial statements of the School to ensure that any significant presentation errors are corrected.

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Dave Yost • Auditor of State

LIFE SKILLS – INVICTUS HIGH SCHOOL

CUYAHOGA 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
MARCH 29, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov