

Comprehensive Annual Financial Report

For the Year Ended June 30, 2013



**Invictus High School
(Formerly Life Skills Center of Cleveland)**

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, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 24, 2014

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Invictus High School Cleveland, Ohio

Comprehensive Annual Financial Report For the Year Ended June 30, 2013

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

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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Introductory Section

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Cleveland, Ohio 44115

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www.invictushigh.org

December 31, 2013

Invictus High School Community
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Invictus High School (formerly Life Skills Center of Cleveland) (the School) for the fiscal year ended June 30, 2013. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

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

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

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

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

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

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). Rea & Associates, Inc rendered an opinion on the School's financial statements as of June 30, 2013 and the Independent Auditor's Report on the Basic Financial Statements is included in the Financial Section herein.

As required by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion follows the Independent Auditor's Report and provides an assessment of the School's finances for fiscal year 2013 and the outlook for the future.

Profile of the Government

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

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

Economic Issues

Since the enactment of community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see Statistical Section for historical funding levels). Historically, the School has seen increases in the base level per pupil funding amount. However, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities that they operate in. By comparison, the Cleveland City School District receives over \$18,000 in average per pupil funding from all sources whereas the School (which is also located in the City of Cleveland) receives only \$ 9,983 from all sources. These disparities in funding are in part, the reason why contracting with a professional educational management firm like White Hat Management was an attractive option. By managing multiple schools, the Company is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school. In November 2005, the School renewed its management agreement with White Hat and its affiliates. (See Note 8 for a full description of services provided by the Company.)

As discussed later, the School was funded on 88 full-time equivalent students for fiscal year 2013. As of the date of this letter, it is expected that the School will maintain that enrollment with the possibility of a slight decline consistent with declines seen in other Life Skills Centers throughout the State. Obviously, any decline in enrollment would have a direct corresponding impact to current year revenues.

Awards and Acknowledgements

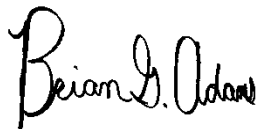
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Invictus High School (formerly Life Skills Center of Cleveland) for its CAFR for the year ended June 30, 2012. The School has received the award annually since 2004. The School was also acknowledged by the Ohio Department of Education as being one of the first community schools in the State to ever receive such an award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

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

Sincerely,



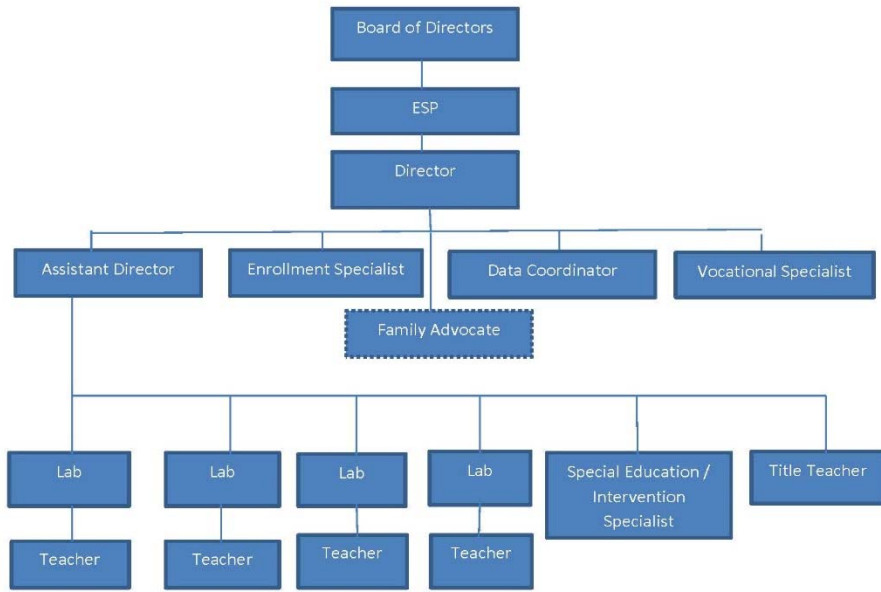
Brian G. Adams MBA, CMA, CFM, CrFA
Fiscal Officer/Internal Auditor
Invictus High School



Valencia Lescook
President, Board of Directors
Invictus High School

Invictus High School
Board of Directors
June 30, 2013

Valencia Lescook	Board President
Deborah Howell	Board Member
Deidre Cummings	Board Member
Melanie Powell Brazil	Board Member
Maureen Ziegler	Board Member
Antoine Williams	Board Member
Curtis Orr	Board Member
Victor Stewart	Board Member



*Optional Based on School Size



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Life Skills Center of Cleveland
Ohio**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Financial Section

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December 31, 2013

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 business-type activities of the Invictus High School, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2013, 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 respective financial position of the business-type activities of the School, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
(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, 2013. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

- In total, Net Position decreased \$298,700, or 124.3 percent from 2012. The decrease is due to decreased revenues while operating costs for legal fees, instructional services, and equipment and furniture increased.
- Total assets decreased \$123,448, which represents a 26.6 percent decrease from 2012. This was primarily due to a decrease in cash and receivables from the previous year.
- Liabilities increased \$175,252, which represents a 78.1 percent increase from 2012. The increase in liabilities is a direct result of increased current and long term liabilities.

Using this Financial Report

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

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 2013. This statement includes all assets and liabilities, 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.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)**

Table 1 provides a summary of the School's Net Position for fiscal years 2013 and 2012.

(Table 1)
Statement of Net Position

	2013	2012
Assets		
Current Assets	\$ 60,482	\$441,115
Non-Current Assets: Deposits	23,250	23,250
Capital Assets, Net	257,185	-
Total Assets	340,917	464,365
Liabilities		
Liabilities		
Current Liabilities	329,671	224,114
Long Term Liabilities	69,695	-
Total Liabilities	399,366	224,114
Net Position		
Net Investment in Capital		
Assets	251,964	-
Unrestricted	(310,413)	240,251
Total Net Position	\$ (58,449)	\$240,251

Total assets decreased \$123,448, which represents a 26.6 percent decrease from 2012. This was primarily due to a decrease in cash and receivables from the previous year. Liabilities increased \$175,252, which represents a 78.1 percent increase from 2012. The increase in liabilities is a direct result of increased current and long term liabilities.

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal years 2013 and 2012, as well as, a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)**

(Table 2)
Change in Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues		
State Aid	\$701,609	\$1,669,327
Casino Aid	1,778	-
Non-Operating Revenue		
Grants	169,840	444,648
Interest Income	163	1,580
Miscellaneous	5,094	4,906
Total Revenues	<u>878,484</u>	<u>2,120,461</u>
Operating Expenses		
Purchased Services: Salaries and Benefits	461,188	-
Purchased Services: Management Fees	120,083	1,577,524
Purchased Services: Grant Programs	-	331,888
Instructional Services	34,200	89,649
Supplemental Education Services	-	16,667
Equipment and Furniture	11,475	106,631
Sponsorship Fees	20,618	48,681
Legal	36,983	64,719
Auditing and Accounting	40,490	30,207
Other Purchased Services	248,848	-
Supplies	25,691	-
Depreciation	26,623	-
Other Operating Expenses	21,438	-
Insurance	-	1,616
Board of Education	-	26,950
Professional Services	126,688	44,129
Miscellaneous	-	15,762
Total Expenses	<u>1,174,325</u>	<u>2,354,423</u>
Non-Operating Expenses		
Interest and Fiscal Charges	2,859	-
Settlement Expense	-	25,000
Change in Net Position	<u>\$ (298,700)</u>	<u>\$ (258,962)</u>

The primary reason for the decrease in overall revenues from 2012 is attributable to the decrease in enrollment of 127 students. The School's most significant expenses, "Purchased Services- Management Fees" decreased as well because of the management agreement in place between the School and its former management company. As stated previously, the agreement provides that specific percentages of the revenues received by the School will be paid to CEG to fund operations. (See Notes to the Basic Financial Statements, Note 8)

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)**

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year forecast that is reviewed periodically by the Board of Directors. The five-year forecasts are also submitted to the Sponsor and the Ohio Department of Education.

Capital Assets

At the end of fiscal year 2013 the School's had a capital asset net book value of \$257,185, with accumulated depreciation of \$26,623. The capital assets are reported in the accompany Statement of Net Position, at June 30, 2013.

(Table 3)
Capital Assets (Net of Depreciation)

	2013	2012
Leasehold Improvements	\$ 251,775	\$ -
Furniture and Equipment	5,410	-
Total Capital Assets, Net	<u>\$ 257,185</u>	<u>\$ -</u>

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 88 students (FTE) in 2013 (a decrease of 127 students from 2011) 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 \$ 7993 in fiscal year 2013. 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 June 2010, the School contracted with Saint Aloysius Orphanage (SAO) to be its Sponsor. The term of the contract is from July 1, 2010 through June 30, 2013. SAO will be paid Two Percent (2%) for the time period of July 1, 2010 through June 30, 2011, Two and a half Percent (2.5%) for the time period of July 1, 2011 through June 30, 2012 and Three Percent (3%) for the remainder of the contractual period.

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.

**INVICTUS HIGH SCHOOL
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF NET POSITION
 JUNE 30, 2013**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 12,840
Accounts Receivable	665
Grants Receivable	30,055
Receivable from Schools	553
Prepaid Retirement Expenses	16,369

Total Current Assets	<u>60,482</u>
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Noncurrent Assets

Leasehold Deposits	23,250
Depreciable Capital Assets, net	257,185

Total Noncurrent Assets	<u>280,435</u>
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Total Assets	<u><u>340,917</u></u>
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LIABILITIES

Current Liabilities

Accounts Payable	31,660
State Funding Payable	7,676
Grants Funding Payable	56,454
Continuing Fees Payable	163,667
Deferred Rent	31,179
Notes Payable, Due within one year	37,211
Capital Lease Payable, Due within one year	1,824

Total Current Liabilities	<u>329,671</u>
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Long-Term Liabilities:

Notes Payable, Due in more than one year	66,298
Capital Lease Payable, Due in more than one year	3,397

Total Long Term Liabilities	<u>69,695</u>
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Total Liabilities	<u><u>399,366</u></u>
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NET POSITION

Net Investment in Capital Assets	251,964
Unrestricted	<u>(310,413)</u>

Total Net Position	<u><u>\$ (58,449)</u></u>
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See accompanying notes to the basic financial statements

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

OPERATING REVENUES

State Aid	\$ 701,609
Casino Aid	<u>1,778</u>
Total Operating Revenues	<u>703,387</u>

OPERATING EXPENSES

Purchased Services: Salaries and Benefits	461,188
Purchased Services: Management Fees	120,083
Instructional Services	34,200
Sponsorship Fees	20,618
Legal	36,983
Auditing and Accounting	40,490
Other Professional Services	126,688
Other Purchased Services	248,848
Supplies	25,691
Equipment and Furniture	11,475
Depreciation	26,623
Other Operating Expenses	<u>21,438</u>
Total Operating Expenses	<u>1,174,325</u>

Operating Loss (470,938)

NON-OPERATING REVENUE/(EXPENSES)

Grants	169,840
Interest and Fiscal Charges	(2,859)
Miscellaneous	5,094
Interest Income	<u>163</u>

Total Non-Operating Revenue/(Expenses) 172,238

Change in Net Position (298,700)

Net Position Beginning of Year 240,251

Net Position End of Year \$ (58,449)

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, 2013**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 797,124
Cash Payments to Suppliers for Goods and Services	<u>(1,106,220)</u>
Net Cash Used For Operating Activities	<u>(309,096)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Miscellaneous Cash Receipts	5,094
Cash Received from Grant Programs	<u>220,765</u>
Net Cash Provided by Noncapital Financing Activities	<u>225,859</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Cash Payments for Capital Assets	(277,184)
Cash Payments for Interest and Fiscal Charges	(2,859)
Cash Received from Loans	115,506
Cash Payments for Principal Retirements	<u>(13,401)</u>
Net Cash Provided by Capital Financing Activities	<u>(177,938)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	<u>163</u>
Net Decrease in Cash and Cash Equivalents	(261,012)

Cash and Cash Equivalents Beginning of Year	<u>273,852</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 12,840</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	(470,938)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	26,623
Changes in Assets and Liabilities:	
Accounts Receivable	261
State Funding Receivable	86,061
Receivable from Schools	3,004
Prepaid Retirement Expense	(16,369)
Accounts Payable	(41,739)
State Funding Payable	7,676
Grants Payable	(13,270)
Continuing Fee Payable	80,606
Sponsor Fee Payable	(430)
Payable to Schools	(1,760)
Deferred Rent	<u>31,179</u>

Net Cash Used For Operating Activities	<u><u>\$ (309,096)</u></u>
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Non-Cash transaction: During fiscal year 2013, the school entered into a capital lease in the amount of \$6,625.

See accompanying notes to the basic financial statements

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**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 June 2010, the School contracted with Saint Aloysius Orphanage (SAO) to be its Sponsor. The term of the contract is from July 1, 2010 through June 30, 2013.

The School operates under a self-appointing, nine-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 215 students (average daily member).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total 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 2013. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391, as it relates to five-year forecasts.

D. Cash and Cash Equivalents

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

During fiscal year 2013, investments were limited to the State Treasurer's Investment Pool (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2013.

E. Intergovernmental Revenues

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

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

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

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2013 school year totaled \$873,227.

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 \$257,185. Depreciation is computed by the straight-line method over five years for "Furniture and Equipment", and five to twenty years for "Leasehold Improvements".

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 and liabilities, the disclosure of contingent assets and liabilities 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 assets and liabilities. All of the School's Net Position at June 30, 2013 were unrestricted and net investment in capital assets.

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 and Casino Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all School deposits was \$12,790 and its bank balance was \$35,835. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, None of the School's bank balance of \$35,835 was exposed to custodial risk as discussed below. \$250,000 of the bank balance was covered by the Federal Deposit Insurance Corporation.

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

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 2013, the School and public depositories complied with the provisions of these statutes.

B. Investments

As of June 30, 2013, the School had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 12 months</u>
STAROhio	\$50	\$50	\$ -	\$ -

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2013, is 58 days.

Credit Risk: The School's investments at June 30, 2013 in StarOhio are rated AAAM by Standard & Poor's.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2013:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent to Total</u>
STAROhio	\$50	100.00

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

4. CONTINUING FEES PAYABLE

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

A "Continuing Fees Payable" to current management company Cambridge Education Group has been recorded by the School in the amount of \$85,262, and reported in the Statement of Net Position. The balance was due to the unpaid payroll reimbursements and management fees due at June 30, 2013.

5. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$30,055 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2013.

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 2012 and unpaid to WHLS as of June 30, 2013.

Both are reported in the Statement of Net Position.

6. CAPITAL ASSETS AND DEPRECIATION

The summary of capital assets at June 30, 2013 follows:

	Balance			Balance
	06/30/12	Additions	Retirements	06/30/13
Capital Assets Being Depreciated				
Leasehold Improvements	\$ -	\$277,185	\$ -	\$277,185
Furniture and Equipment	13,402	6,623	(13,402)	6,623
Total Capital Assets Being Depreciated	<u>13,402</u>	<u>283,808</u>	<u>(13,402)</u>	<u>283,808</u>
 Less Accumulated Depreciation				
Leasehold Improvements	-	(25,410)	-	(25,410)
Furniture and Equipment	(13,402)	(1,213)	13,402	(1,213)
Total Accumulated Depreciation	<u>(13,402)</u>	<u>(26,623)</u>	<u>13,402</u>	<u>(26,623)</u>
 Net Total Capital Assets	 <u>\$ -</u>	 <u>\$257,185</u>	 <u>\$ -</u>	 <u>\$257,185</u>

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

7. RISK MANAGEMENT

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

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

8. AGREEMENT WITH CAMBRIDGE EDUCATION GROUP

Effective July 1, 2012, the School entered into a multi-year Management Agreement (Agreement) with Midwest Education Partners, dba Cambridge Education Group (CEG) which is a subsidiary of Newpoint Education for consulting and management of the School. The Agreement's term runs through June 30, 2015. 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 16 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 fees CEG receives is 16 percent of "state and local" revenue.

The School had purchased service expenses for the year ended June 30, 2013, to CEG of \$581,271, with Payables to CEG at June 30, 2013 aggregating \$85,262. CEG is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

9. CAPITALIZED LEASE OBLIGATIONS

The school entered into a capitalized lease for the acquisition of equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", 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 \$6,623. The School paid \$1,404 in principal and \$1,009 in interest for the fiscal year ended June 30, 2013.

Fiscal Year	Capital Lease
2014	\$ 2,632
2015	2,632
2016	1,097
Total	6,361
Less: Amount Representing Interest	(1,140)
Present Value of minimum payments	\$ 5,221

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

The School has contracted with CEG to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 8)

A. School Employees Retirement System

Plan Description - CEG, on behalf of the School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/ Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the CEG 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 a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund) of the System. For the fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School contributions to SERS for the year ended June 30, 2013, 2012 and 2011 were \$9,450, \$8,431, and \$8,920, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description - CEG, on behalf of the School, contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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

**INVICTUS HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

This is the latest information available.

The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$41,992, \$56,169, and \$70,225, respectively, of which 100% has been contributed.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

11. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

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

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS.

The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal 2013, the actuarial required allocation is .74 percent. CEG contributions for the years ended June 30, 2013, 2012 and 2011 were \$536, \$498, and \$574, respectively, which equaled the required contributions each year.

Health Care Plan

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is .16%. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides 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 the fiscal year June 30, 2013, the minimum compensation level was established at \$20,525. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Schools' contributions assigned to health care for the years ended June 30, 2013, 2012 and 2011 were \$1,403, \$2,365, \$2,404, respectively, all of which has been contributed.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries.

Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

B. State Teachers Retirement System

Plan Description – CEG, on behalf of the School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,230, \$4,321, and \$5,402, respectively, all of which has been contributed for all fiscal years.

This is the latest information available.

12. CONTINGENCES

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

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2013 have not been calculated as of the audit date and will be included in the financial activity for fiscal year 2014.

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

13. SPONSORSHIP FEES

The School contracted with the Saint Aloysius Orphanage as its sponsor effective July 1, 2010. The Term of the Contract is from July 1, 2010 through June 30, 2013. SAO will be paid Three Percent (3%) for the contractual period of state foundation revenue. Total fees for fiscal 2013 were \$20,618.

14. TAX EXEMPT STATUS

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

15. DEPOSITS AND OPERATING LEASES – LESSEE DISCLOSURE

The school has entered into a lease agreement for fiscal year 2013 with All Star Development, Inc. The term of the lease is for 3 years at \$11,625 per month with increases in years 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.

16. CHANGE IN ACCOUNTING PRINCIPLES

For 2013, the school has implemented GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government’s *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the school’s financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

17. LONG TERM OBLIGATIONS

Changes in the School’s long-term obligations during fiscal year 2013 were as follows:

	Balance 6/30/2012	Additions	Reductions	Balance 6/30/2013	Amount Due Within One Year
Cambridge Education Note	\$0	\$115,506	(\$11,997)	\$103,509	\$37,211
Capital Leases Payable	0	6,625	(1,404)	5,221	1,824
Long-Term Obligations	<u>\$0</u>	<u>\$122,131</u>	<u>(\$13,401)</u>	<u>\$108,730</u>	<u>\$39,035</u>

**INVICTUS HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

17. LONG TERM OBLIGATIONS (Continued)

Midwest Education Partners dba Cambridge Education Group Promissory Note - On February, 26th, 2013, the school entered into a promissory note for outstanding payroll reimbursements that had accumulated in the amount of \$115,506. The promissory note has an interest rate of 5.0 percent, monthly payments of \$3,462, and matures in fiscal year 2016. Total payments for fiscal year 2013 were \$13,847, which included \$11,997 of principal and \$1,850 of interest. The outstanding principal balance on this note at June 30, 2013 was \$103,509.

The following schedule discloses the future payments:

Fiscal Year Ending June 30	Principal	Interest
2014	\$ 37,211	\$ 4,330
2015	39,115	2,427
2016	27,183	512
Total	<u>\$ 103,509</u>	<u>\$ 7,269</u>

Statistical Section

STATISTICAL SECTION

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

Contents

Financial Trends

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

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

Revenue Capacity

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

- Operating and Non-Operating Revenues

Enrollment Trends

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

- Full-Time Equivalent (FTE) Enrollment

Revenue by Grants Sources

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

- Grant Revenues by Source

Net Position Trends

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

- Net Position

Demographic and Economic Information

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

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

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

Invictus High School Ohio
Operating Expenses by Category
Last Ten Fiscal Years

Fiscal Year

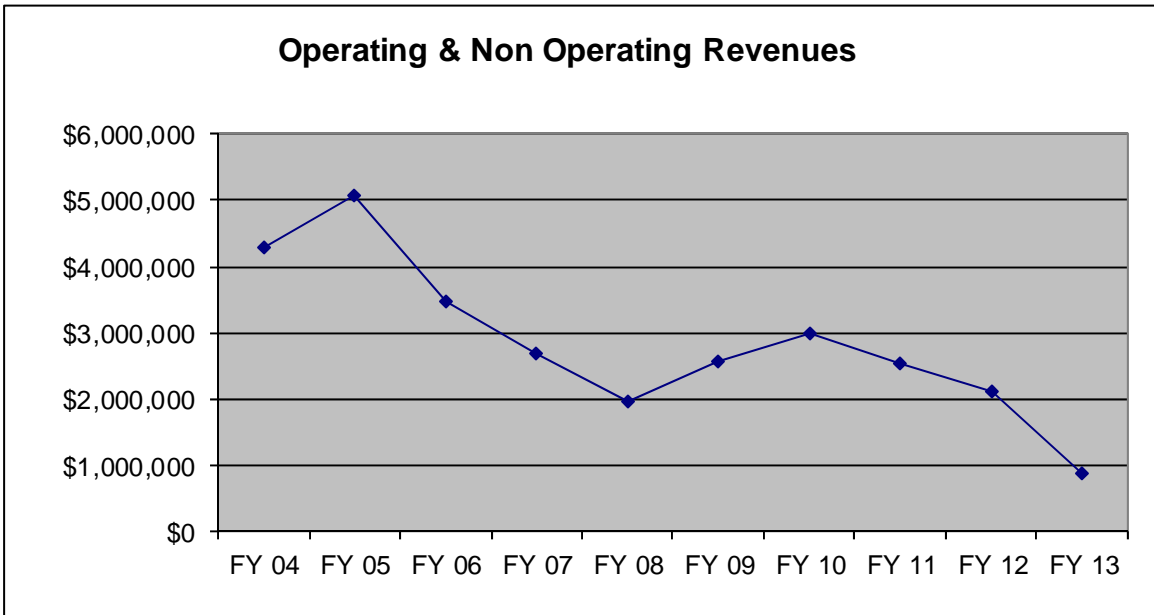
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Purchased Services Management Fees	\$ 120,083	\$1,577,524	\$1,706,884	\$2,168,204	\$2,112,576	\$1,592,317	\$2,164,069	\$3,055,423	\$4,551,348	\$3,985,113
Purchased Services Salaries and Benefits	\$ 461,188	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Purchased Services Grant Programs	\$ -	\$ 331,888	\$ 723,876	\$ 692,078	\$ 292,448	\$ 218,063	\$ 341,724	\$ 254,653	\$ 363,546	\$ 167,272
Other Purchased Services	\$ 248,848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supplies, Furniture & Fixtures	\$ 37,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sponsor Fees	\$ 20,618	\$ 48,681	\$ 52,939	\$ 11,476	\$ 11,337	\$ 8,670	\$ 11,946	\$ 16,086	\$ -	\$ -
Legal & Professional	\$ 197,871	\$ 215,164	\$ 59,944	\$ 54,895	\$ 63,688	\$ 79,508	\$ 67,822	\$ 30,543	\$ 34,136	\$ 24,427
Insurance	\$ -	\$ 1,616	\$ 1,643	\$ 1,626	\$ 1,811	\$ 1,490	\$ 1,490	\$ 6,625	\$ 2,552	\$ 7,985
Auditing & Accounting	\$ 40,490	\$ 30,207	\$ 27,607	\$ 27,244	\$ 25,212	\$ 23,844	\$ 16,842	\$ 10,927	\$ 4,986	\$ 4,743
Board of Education	\$ -	\$ 26,950	\$ 9,345	\$ 17,301	\$ 2,819	\$ 2,580	\$ 28,441	\$ 13,342	\$ 21,190	\$ 13,933
Depreciation & Other	\$ 48,061	\$ 122,393	\$ 7,191	\$ 7,807	\$ 5,421	\$ 1,605	\$ 4,620	\$ 607	\$ 800	\$ 7,290
Total	\$1,174,325	\$2,354,423	\$2,589,429	\$2,980,631	\$2,515,312	\$1,928,077	\$2,636,954	\$3,388,206	\$4,978,558	\$4,210,763
Enrollment	88	215	245	320	268	229	314	453	641	642
Per Pupil Expenditure	\$ 13,345	\$ 10,951	\$ 10,569	\$ 9,314	\$ 9,385	\$ 8,420	\$ 8,398	\$ 7,479	\$ 7,767	\$ 6,559

Note: The School began enrolling students in FY 00.

Source: School Financial Records

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

<u>Year</u>	<u>State and Casino Aid</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
2013	\$703,387	\$169,840	\$ 5,257	\$ 878,484
2012	\$1,669,327	\$444,648	\$ 6,486	\$2,120,461
2011	\$1,796,720	\$730,705	\$ 3,124	\$2,530,549
2010	\$2,295,185	\$692,078	\$ 6,711	\$2,993,974
2009	\$2,267,491	\$292,448	\$ 7,817	\$2,567,756
2008	\$1,733,981	\$218,063	\$21,296	\$1,973,340
2007	\$2,323,616	\$341,724	\$29,486	\$2,694,826
2006	\$3,191,971	\$254,653	\$21,933	\$3,468,557
2005	\$4,692,112	\$363,546	\$ 7,607	\$5,063,265
2004	\$4,108,364	\$167,272	\$ 2,011	\$4,277,647

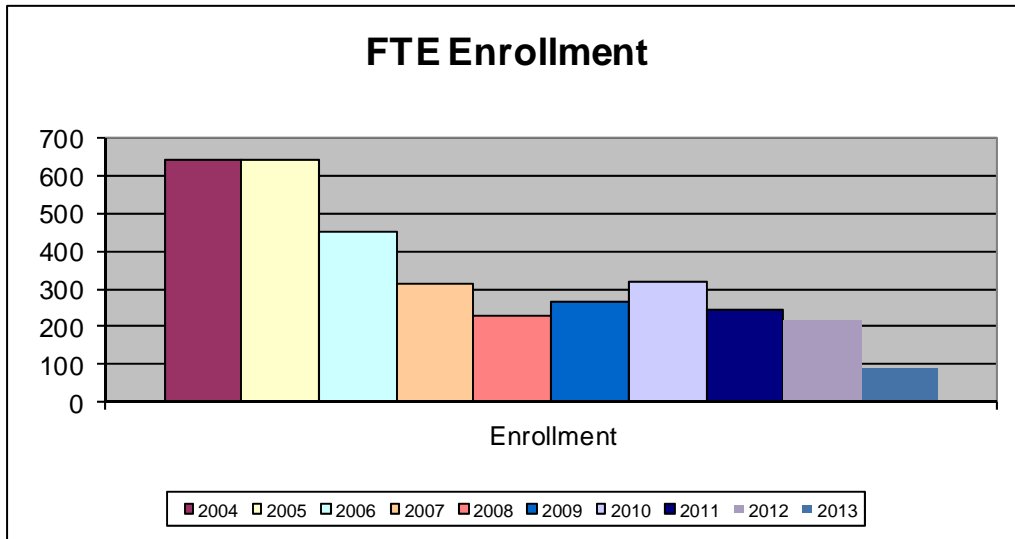


Note: The School began enrolling students in FY 00.

Source: School Financial Records

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

<u>Year</u>	<u>Enrollment</u>
2013	88
2012	215
2011	245
2010	320
2009	268
2008	229
2007	314
2006	453
2005	641
2004	642

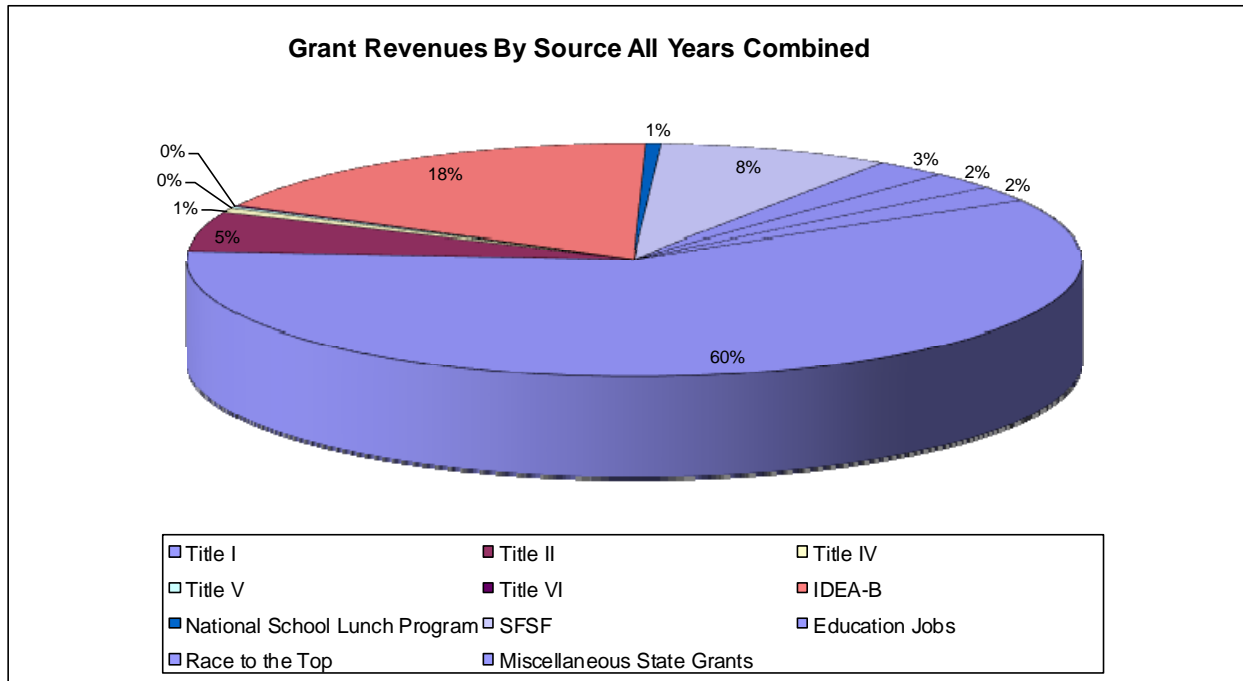


Note: The School began enrolling students in FY 00.

Source: Ohio Department of Education

Invictus High School Grant Revenues by Source Last Ten Fiscal Years

Year	Title I	Title II	Title IV	Title V	Title VI	IDEA-B	National School Lunch	State Stabilization	Education Jobs	Race to the Top	Misc State Grants	Total
2013	\$ 63,991	\$15,353	\$ -	\$ -	\$ -	\$ 37,236	\$ 2,096	\$ -	\$ -	\$51,164	\$ -	\$169,840
2012	\$235,881	\$18,455	\$ -	\$ -	\$ -	\$ 47,434	\$18,300	\$ -	\$ 89,649	\$34,581	\$ 350	\$444,648
2011	\$471,222	\$15,822	\$ 175	\$ -	\$ -	\$ 77,538	\$ -	\$150,470	\$ 6,828	\$ 3,650	\$ 5,000	\$730,705
2010	\$417,768	\$23,483	\$1,631	\$ -	\$ -	\$ 85,079	\$ -	\$159,118	\$ -	\$ -	\$ 5,000	\$692,078
2009	\$221,551	\$20,415	\$1,212	\$ 14	\$ -	\$ 41,666	\$ -	\$ -	\$ -	\$ -	\$ 7,590	\$292,448
2008	\$117,523	\$17,898	\$3,883	\$ 601	\$ -	\$ 71,268	\$ -	\$ -	\$ -	\$ -	\$ 6,890	\$218,063
2007	\$234,537	\$23,824	\$2,239	\$ 474	\$ -	\$ 59,563	\$ -	\$ -	\$ -	\$ -	\$21,087	\$341,724
2006	\$107,164	\$19,336	\$5,868	\$1,763	\$ -	\$112,322	\$ -	\$ -	\$ -	\$ -	\$ 8,200	\$254,653
2005	\$233,059	\$22,282	\$6,196	\$2,915	\$2,742	\$ 80,727	\$ -	\$ -	\$ -	\$ -	\$15,625	\$363,546
2004	\$ 82,354	\$18,911	\$2,229	\$4,310	\$3,106	\$ 45,437	\$ -	\$ -	\$ -	\$ -	\$10,925	\$167,272

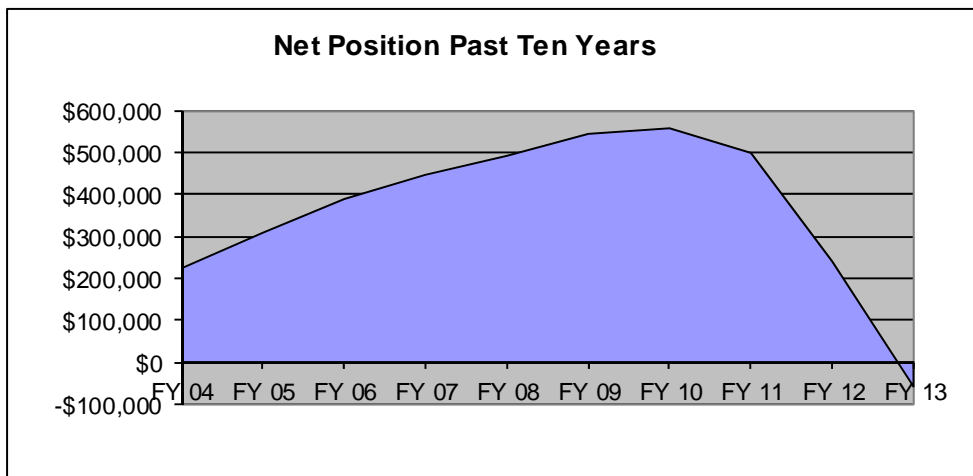


Note: The School began enrolling students in FY 00.

Source: School Financial Records

Invictus High School
Net Position
Last Ten Fiscal Years

<u>Year</u>	<u>Invested in Capital Assets</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Change in Net Position</u>
2013	\$ 251,964	\$(310,413)	\$ (58,449)	\$(298,700)
2012	\$ -	\$ 240,251	\$ 240,251	\$(258,962)
2011	\$ -	\$ 499,213	\$ 499,213	\$ (58,880)
2010	\$ -	\$ 558,093	\$ 558,093	\$ 13,343
2009	\$ -	\$ 544,750	\$ 544,750	\$ 52,444
2008	\$ -	\$ 492,306	\$ 492,306	\$ 45,263
2007	\$ -	\$ 447,043	\$ 447,043	\$ 57,872
2006	\$ -	\$ 389,171	\$ 389,171	\$ 80,351
2005	\$ -	\$ 308,820	\$ 308,820	\$ 84,706
2004	\$ -	\$ 224,114	\$ 224,114	\$ 224,114

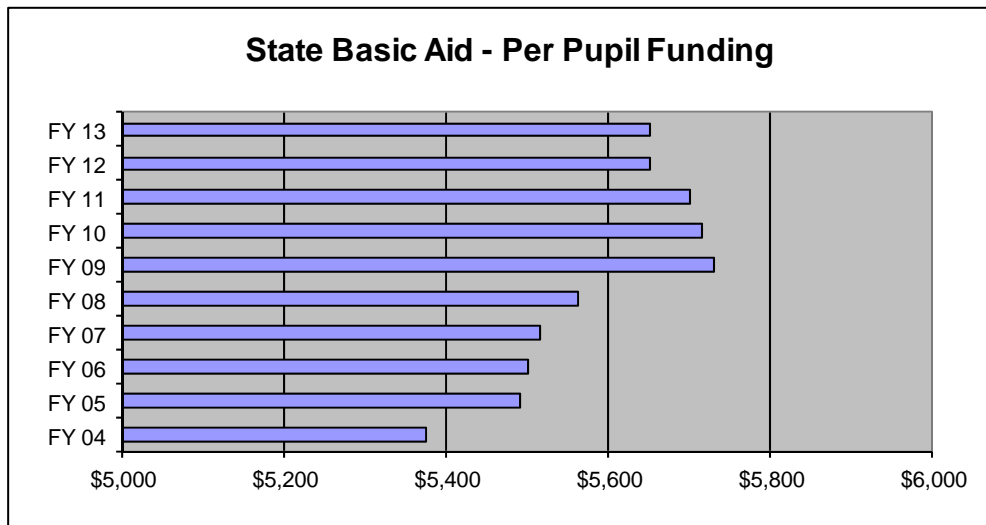


Note: The School began enrolling students in FY 00.

Source: School Financial Records

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

Year	Per Pupil Funding	Cost of Doing Business	Total Per Pupil
2013	\$ 5,653	-	\$ 5,653
2012	\$ 5,653	-	\$ 5,653
2011	\$ 5,703	-	\$ 5,703
2010	\$ 5,718	-	\$ 5,718
2009	\$ 5,732	-	\$ 5,732
2008	\$ 5,565	-	\$ 5,565
2007	\$ 5,403	1.0209	\$ 5,516
2006	\$ 5,283	1.0417	\$ 5,503
2005	\$ 5,169	1.0626	\$ 5,493
2004	\$ 5,058	1.0626	\$ 5,375



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

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

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

Note 3: The Ohio Department of Education eliminated the cost of doing business factor in fiscal year 2012.

Source: Ohio Department of Education

Invictus High School
Student Population by Resident District
2013 Fiscal Year

<u>Resident District</u>	<u>%</u>
Bedford	1.34%
Cleveland	5.47%
Cleveland Heights	76.15%
East Cleveland	4.99%
Euclid	2.76%
Garfield Heights	1.47%
Maple Heights	3.22%
Shaker Heights	2.42%
South Euclid- Lyndhurst	1.13%
All Other Districts	1.05%

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

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

Source: Ohio Department of Education

Invictus High School
Miscellaneous Statistics

School Address: 3122 Euclid Avenue
Cleveland, Ohio 44115

Square Footage: 15,000 sq. ft.

Date of Incorporation: 7/22/1999

Instructional Staff: 5

Total FY 13 Staff: 8



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

**Instructional Staff/
Student Ratio** 18:1

**Number of Graduates
since inception:** 1032

**Percent of Low
Income Students:** 93%

Source: School Records

Invictus High School Principal Employers

Principal Employers Current Year and Nine Years Ago						
Employer	2012			2003		
	Number of Employees	Rank	% of Total Employment	Number of Employees	Rank	% of Total Employment
Cleveland Clinic Health System	34,000	1	3.42%			
U.S. Office of Personnel Manag	15,095	2	1.52%			
University Hospitals	13,726	3	1.38%			
Giant Eagle Incorporated	10,311	4	1.04%			
Progressive Corporation	8,612	5	0.87%			
Cuyahoga County	7,859	6	0.79%			
City of Cleveland	7,089	7	0.71%			
General Motors	5,975	8	0.60%			
Key Corp	5,827	9	0.59%			
MetroHealth Systems	5,558	10	0.56%			
Cast Western Reserve Universit	4,620	11	0.46%			
Cleveland Clinic Health System				23,360	1	2.17%
University Hospitals				14,111	2	1.31%
Key Corp				7,655	3	0.71%
Progressive Corp				6,468	4	0.60%
Ford Motor Company				6,252	5	0.58%
National City Corporation				5,590	6	0.52%
MetroHealth Systems				5,267	7	0.49%
Case Western Reserve				5,060	8	0.47%
SBC Ameritech				4,343	9	0.40%
Continental Airlines				3,492	10	0.32%
Giant Eagle Incorporated				3,491	11	0.32%
Total Employees	<u>118,672</u>		<u>11.93%</u>	<u>85,089</u>		<u>7.92%</u>

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Invictus High School

Cuyahoga County, Ohio

*Reports Issued Pursuant to
Government Auditing Standards*

For the Fiscal Year Ended
June 30, 2013

**Invictus High School
Cuyahoga County, Ohio**

Reports Issued Pursuant to Government Auditing Standards

June 30, 2013

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December 31, 2013

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 business-type activities of the Invictus High School, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 31, 2013.

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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Hea & Associates, Inc.

Medina, Ohio

December 31, 2013

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

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

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

1. We noted the Board adopted its anti-harassment policy at its meeting on August 31, 2010 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

Rea & Associates, Inc.

Medina, Ohio

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Dave Yost • Auditor of State

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
FEBRUARY 6, 2014**