



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**REGULAR AUDIT**

**FOR THE PERIOD ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Maritime Academy of Toledo  
Lucas County  
1000 Monroe Street  
Toledo, Ohio 43604-5953

To the Governing Board:

We have audited the accompanying basic financial statements of The Maritime Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the period June 1, 2006, through June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of The Maritime Academy of Toledo, Lucas County, Ohio, for the period ended June 30, 2007, and the respective changes in financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

April 7, 2008

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2007  
UNAUDITED**

The discussion and analysis of The Maritime Academy of Toledo's (the Academy) financial performance provides an overall review of the Academy's financial activities for the period ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

- Total Assets were \$151,476.
- Total Liabilities were \$30,287.
- Change in Net Assets was \$121,189.

**Using this Financial Report**

This report consists of three parts: the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

**Statement of Net Assets**

The Statement of Net Assets answers the question, "How did we do financially during 2007?" 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 considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets at June 30, 2007. As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

(Table 1)  
Net Assets

	2007
<b>Assets</b>	
Current Assets	\$ 132,733
Security Deposits	3,000
Capital Assets, Net	15,743
<i>Total Assets</i>	151,476
 <b>Liabilities</b>	
Current Liabilities	30,287
<i>Total Liabilities</i>	30,287
 <b>Net Assets</b>	
Invested in Capital Assets	15,743
Restricted	88,407
Unrestricted	17,039
<i>Total Net Assets</i>	\$ 121,189

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the fiscal year. That is, it identifies the amount of operating expenses supported by State and other funding. Again, since this was the initial year of operation, a comparative analysis has not been presented.



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

(Table 2)  
Change in Net Assets

	2007
<b>Operating Revenues:</b>	
Foundation Payments	\$ 187,194
Special Education	8,902
Classroom Fees	240
Other	11,301
<i>Total Operating Revenues</i>	<i>207,637</i>
<b>Operating Expenses</b>	
Salaries	80,000
Fringe Benefits	19,043
Purchased Services	320,258
Materials and Supplies	132,969
Depreciation	1,686
Other Expenses	1,924
<i>Total Operating Expenses</i>	<i>555,880</i>
<b>Non-Operating Revenues and Expenses:</b>	
Federal Grants	466,432
State Grants	3,000
<i>Total Expenses</i>	<i>469,432</i>
<i>Increase in Net Assets</i>	<i>\$ 121,189</i>

State Foundation Payments and Special Education, as a whole, are the primary support for the Academy, representing 94.4 percent of the operating revenue. Salaries and Fringe Benefits comprise 17.8 percent of operating expenses.

The Academy had total revenues of \$677,069 and total expenses of \$555,880. The change in net assets for the year was an increase of \$121,189. This increase shows the Academy is meeting its obligations.

**Capital Assets**

At June 30, 2007, the Academy had \$15,743 (net of \$1,686 in accumulated depreciation) invested in computers, leasehold improvements and furniture, fixtures, and equipment. Table 3 shows balances at June 30, 2007 and a comparison to June 30, 2006:

(Table 3)  
Capital Assets at June 30, 2007  
(Net of Depreciation)

	2007
Computers	\$ 4,808
Leasehold Improvements	9,000
Furniture, Fixtures, and Equipment	1,935
Totals	\$ 15,743

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

For more information on capital assets see Note 5 to the basic financial statements.

**Current Financial Issues**

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, several changes are expected to occur in the nature of the funding or operations of the Academy in 2008. Effective July 1, 2007, the Academy's new fiscal agent is Lucas County Educational Service Center. Their fiscal agent for the audit period was the ESC of Franklin County. Further, effective August 1, 2007, the Academy is relocating to a new site, providing them with more room for expansion. Lastly, with the addition of space comes the addition of students; the Academy is expected to grow in both the number of students, as well as the number of support staff, which will impact the Academy's funding, since the Academy receives the majority of its finances from state aid.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Renee Marazon, Captain, 1000 Monroe Street, Toledo, Ohio, 43604, or e-mail at [rmarazon@victoryacademy.us](mailto:rmarazon@victoryacademy.us).

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

**Assets**

Current Assets

Cash and Cash Equivalents	\$ 43,089
Intergovernmental Receivable	74,553
Prepaid Items	15,091
Total Current Assets	<u>132,733</u>

Non-Current Assets

Security Deposits	3,000
Depreciable Capital Assets, Net	15,743
Total Non-Current Assets	<u>18,743</u>

Total Assets	<u>151,476</u>
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**Liabilities**

Current Liabilities

Accounts Payable	25,798
Accrued Wages and Benefits	2,534
Intergovernmental Payable	1,955
Total Liabilities	<u>30,287</u>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	15,743
Restricted for Grants	88,407
Unrestricted	17,039
Total Net Assets	<u>\$ 121,189</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE PERIOD ENDED JUNE 30, 2007**

<b>Operating Revenues</b>	
Foundation Payments	\$ 187,194
Special Education	8,902
Classroom Fees	240
Other Revenues	<u>11,301</u>
<i>Total Operating Revenues</i>	<u>207,637</u>
<b>Operating Expenses</b>	
Salaries	80,000
Fringe Benefits	19,043
Purchased Services	320,258
Materials and Supplies	132,969
Depreciation	1,686
Other	<u>1,924</u>
<i>Total Operating Expenses</i>	<u>555,880</u>
<i>Operating Loss</i>	<u>(348,243)</u>
<b>Non-Operating Revenues and Expenses</b>	
Operating Grants - Federal	466,432
Operating Grants - State	<u>3,000</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>469,432</u>
<i>Change in Net Assets</i>	121,189
Net Assets Beginning of Year	<u>                    </u>
<i>Net Assets End of Year</i>	<u><u>\$ 121,189</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE PERIOD ENDED JUNE 30, 2007**

**Increase (Decrease) in Cash and Cash Equivalents**

<u>Cash Flows from Operating Activities</u>	
Cash Received from Foundation Payments	\$ 187,194
Cash Received from Special Education	8,902
Cash Received from Classroom Fees	240
Cash Received from Other Operating Revenues	11,301
Cash Payments to Suppliers for Goods and Services	(438,416)
Cash Payments to Employees for Services	(77,466)
Cash Payments for Employee Benefits	(24,192)
Cash Payments for Other Operating Uses	<u>(1,924)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(334,361)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Federal Grants Received	391,879
Operating Grants Received	<u>3,000</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>394,879</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(17,429)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	43,089
Cash and Cash Equivalents at Beginning of Year	<u>                    </u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 43,089</u></u>

(Continued)

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

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

Operating Loss	\$ (348,243)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities**

Depreciation	1,686
Changes in Assets and Liabilities	
Increase in Prepaid Items	(15,091)
Increase in Security Deposits	(3,000)
Increase in Accounts Payable	25,798
Increase in Accrued Wages and Benefits	2,534
Increase in Intergovernmental Payable	<u>1,955</u>

<i>Total Adjustments</i>	<u>13,882</u>
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<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (334,361)</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007**

**NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

The Maritime Academy of Toledo (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's mission is to "build better citizens for America". To accomplish this mission, the Academy commits to one hundred percent student passage of the Ohio Graduation Test and to achieving a one hundred percent diploma and graduation rate, by providing students a rigorous, high quality middle/junior/high school education (grades 5-12) that incorporates Navy Sea Cadet formation and a U.S. Coast Guard Junior Reserved Officers Training Corp. The Academy offers students a challenging Ohio standards-based education that promotes teamwork and moral leadership through maritime/nautical focused themes that are interwoven throughout and integrated across the curriculum. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy. This is the initial period of operations.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center for a period of five years commencing January 10, 2005. Sponsorship of the Academy was reassigned to the Franklin County Board of Education (aka Franklin County Educational Service Center) (the Sponsor) effective July 22, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, 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 Governing Board controls the Academy's one instructional/support facility staffed by 3 non-certificated staff, 1 certificated Administrator, 2 certificated full-time teaching personnel, and 1 certificated part-time special education teacher, who provide services to 32 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

**A. Basis of Presentation**

The Academy's financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**B. 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 assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis. Chapter 3314.03(A)(11)(d) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**E. Cash and Cash Equivalents**

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Franklin County Educational Service Center. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for the Academy are maintained in this account or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for the presentation on the statement of net assets, investments with original maturities of three month or less at the time they are purchased by the Academy are considered to be cash equivalents.

During the period ended June 30, 2007, the Academy had only deposits.



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**F. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements 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 year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**H. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization policy of \$1,500 and does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvements	Life of the lease
Furniture, Fixtures, and Equipment	5 years
Computers	5 years

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Invested in Capital Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**J. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**K. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**L. Security Deposit**

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$3,000 is held by the lessor. (See Note 6)

**NOTE 3 – DEPOSITS**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits. At fiscal year end June 30, 2007, the carrying amount of the Academy's deposits was \$43,089 and the bank balance was \$64,097. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, \$64,097 was covered by the Federal Depository Insurance Corporation and not exposed to custodial credit risk.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2007, consisted of intergovernmental receivables arising from grants. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
IDEA-B	\$ 12,921
Title I	3,006
Title IIA	122
Title IID	32
Fed Subgrant (Community School)	58,472
Total Receivables	<u>\$ 74,553</u>

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal period ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Deletions	Balance 06/30/07
Capital Assets:				
Computers		\$ 6,010		\$ 6,010
Furniture, Fixtures, and Equipment		2,419		2,419
Leasehold Improvements		9,000		9,000
Total Capital Assets		17,429		17,429
Less Accumulated Depreciation:				
Computers		(1,202)		(1,202)
Furniture, Fixtures, and Equipment		(484)		(484)
Total Accumulated Depreciation		(1,686)		(1,686)
Total Capital Assets Being Depreciated, Net		15,743		15,743

**NOTE 6 – OPERATING LEASES**

The Academy entered into two School facility operating leases for monthly payments totaling \$4,450 with St. Clair Village, LLC. Payments made totaled \$28,500 for the fiscal year ended June 30, 2007 and an additional \$4,450 was prepaid for July 2007. A security deposit was also paid in the amount of \$3,000.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS**

**A. School Employee Retirement System**

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2007, was \$1,699; 70.33 percent has been contributed for period ended June 30, 2007. \$504 represents the unpaid contribution for the period ended 2007. The balance outstanding is reflected as an intergovernmental payable.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – (Continued)**

**B. State Teachers Retirement System**

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), 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 that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strs.org](http://www.strs.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 contributions and earned interest matched by STRS Ohio funds times 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 Combined Plan offers features of both the DC Plan and the DB 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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.

For the period ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the period ending June 30, 2007, 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.

The Academy's required contributions for pension obligations to STRS Ohio for the period ended June 30, 2007, was \$7,024; 195 percent has been contributed for fiscal year 2007. The Academy has a prepaid portion for the period ended June 30, 2007 of \$6,673.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – (Continued)**

**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, 2007, all members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the period ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$540 for the period ended June 30, 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients. For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the period ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, for the period ended June 30, 2007, equaled \$776.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 8 - POSTEMPLOYMENT BENEFITS – (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**NOTE 9 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2007, the Academy contracted with Philadelphia Insurance Company for general liability and property insurance.

Coverage is as follows:

Commercial General Liability per occurrence	\$ 1,000,000
Commercial General Liability aggregate	2,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Products/Completed Operations aggregate	2,000,000
Excess/Umbrella per occurrence and aggregate	5,000,000
Damage to Rented Premises per occurrence	100,000
Medical Expenses (any one person)	10,000

The Academy owns no property, but leased facilities located at 44 and 46-48 S. St. Clair Street, Toledo, Ohio (See Note 6).

**B. Workers' Compensation**

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

**C. Employee Medical Benefits**

The Academy contracted through an independent agent to provide employee medical insurance to its full time employees. The Academy and employees share the cost of the monthly premiums for medical coverage. No employees elected to receive medical benefits through the Academy during the audit period.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 10 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data 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. As a result of said review, the amount the Academy is owed did not result in a material adjustment to the financial statements.

**C. Litigation**

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

**NOTE 11 – FISCAL AGENT**

The Academy entered into a service agreement with Franklin County Educational Service Center (the Sponsor) to serve as the Chief Fiscal Officer of the Academy. The Academy made no payments to Franklin County Educational Service Center during the audit period for fiscal fees. A liability in the amount of \$2,941 was accrued for the period ended June 30, 2007.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- A. Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor's or any other Community School's funds;
- B. Maintain all books and accounts of all funds of the Academy;
- C. Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 11 – FISCAL AGENT – (Continued)**

- D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of the Academy in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with the funds of the Sponsor or any other Community School; and
- F. Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy, so long as the proposed expenditure is within the approved budget and funds are available.

**NOTE 12 – PURCHASED SERVICES**

For the period ended June 30, 2007, purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	\$ 285,227
Property Services	33,957
Travel Mileage/Meeting Expense	120
Communications	279
Utilities	66
Other Purchased Services	609
Total Purchased Services	<u>\$ 320,258</u>

**NOTE 13 – RELATED PARTY TRANSACTIONS**

Reimbursements totaling \$63,487 were made to related parties during the period ended June 30, 2007. \$17,505 to the Academy's principal (Renee Marazon), \$1,885 to her husband (David Marazon), \$43,525 to her company (MAPS for Life), \$52 to the Board Secretary (Jill Laytart), \$350 to the Board Secretary's husband (Ryan Laytart), and \$170 to the Board President (Steve Toth), on behalf of the Academy. Both the Principal and Board Secretary are non-voting members of the Board.

**NOTE 14 – SUBSEQUENT EVENTS**

On July 1, 2007, the Academy contracted for fiscal services with the Lucas County Educational Service Center.

On July 1, 2007, the Academy amended the operating lease with St. Clair Village II LLC to reduce the rent to \$2,200 per month through October 14, 2007.

The Academy entered into a 59 month school facilities operating lease with T & E Properties, LTD for 19,500 square feet of office and classroom space. The lease commenced August 1, 2007 and will terminate on June 30, 2011.



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2007  
(Continued)**

**NOTE 14 – SUBSEQUENT EVENTS – (Continued)**

The Academy entered into a line of credit with David and Renee Marazon in the amount of \$10,050. The Academy promises to pay them the amount of \$1,713.07 on the 15<sup>th</sup> of every month beginning January 15, 2008, and continuing for six months, with an annual variable interest rate of Prime + .25% with the 6<sup>th</sup> month designated final payment to include outstanding principal and any outstanding interest as determined by the variable rate.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Maritime Academy of Toledo  
Lucas County  
1000 Monroe Street  
Toledo, Ohio 43604-5953

To the Governing Board:

We have audited the basic financial statements of the Maritime Academy of Toledo, Lucas County, Ohio (the Academy) as of and for the period June 1, 2006, through June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 7, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the Academy's management in a separate letter dated April 7, 2008.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated April 7, 2008.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and the Academy's Sponsor. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

April 7, 2008



**Mary Taylor, CPA**  
Auditor of State

**MARITIME ACADEMY OF TOLEDO**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 24, 2008**