

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**



# OHIO AUDITOR OF STATE KEITH FABER



Board of Directors  
Maritime Academy of Toledo  
803 Water Street  
Toledo, OH 43604

We have reviewed the *Independent Auditor's Report* of the Maritime Academy of Toledo, Lucas County, prepared by Weber Clark Ltd., for the audit period July 1, 2017 through June 30, 2018. 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 Maritime Academy of Toledo is responsible for compliance with these laws and regulations.

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

Keith Faber  
Auditor of State  
Columbus, Ohio

March 11, 2019

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**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Maritime Academy of Toledo  
Lucas County  
803 Water Street  
Toledo, Ohio 43604

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Maritime Academy of Toledo, Lucas County ("Academy"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy'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 entity'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 entity'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.

The Board of Directors  
Maritime Academy of Toledo  
Lucas County

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maritime Academy of Toledo, Lucas County, as of June 30, 2018, and the 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.

## **Change in Accounting Principle**

As discussed in Note 10 to the financial statements, in 2018, the Academy adopted new accounting guidance, *GASBS 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 9 and the supplemental pension information on pages 44 - 57 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.



The Board of Directors  
Maritime Academy of Toledo  
Lucas County

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2019, on our consideration of the Maritime Academy of Toledo, Lucas County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Maritime Academy of Toledo, Lucas County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Maritime Academy of Toledo, Lucas County's internal control over financial reporting and compliance.



January 7, 2019

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The management's 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 fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2018 are as follows:

- In total, net position was a deficit of \$1,458,452 at June 30, 2018.
- The Academy had operating revenues of \$2,686,753, operating expenses of \$2,333,979 and non-operating revenues and expenses of \$350,047 for fiscal year 2018. Total change in net position for the fiscal year was an increase of \$702,821 as restated.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy's Financial Activities**

***Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during 2018?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13 - 43 of this report.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability. This required supplementary information can be found on pages 44-57 of this report.

The table below provides a summary of the Academy's net position for fiscal year 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 4.

	<b>Net Position</b>	
	<u>2018</u>	<u>Restated 2017</u>
<b><u>Assets</u></b>		
Current assets	\$ 626,419	\$ 897,583
Capital assets, net	<u>2,077,597</u>	<u>2,164,896</u>
Total assets	<u>2,704,016</u>	<u>3,062,479</u>
<b><u>Deferred outflows</u></b>	<u>1,455,838</u>	<u>970,366</u>
<b><u>Liabilities</u></b>		
Current liabilities	247,381	225,719
Non-current liabilities:		
Due within one year	58,453	55,636
Net pension liability	2,973,639	3,612,843
Net OPEB liability	707,689	782,450
Other amounts due in more than one year	<u>1,456,058</u>	<u>1,514,511</u>
Total liabilities	<u>5,443,220</u>	<u>6,191,159</u>
<b><u>Deferred inflows</u></b>	<u>175,086</u>	<u>2,959</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	563,086	594,749
Restricted	23,232	23,549
Unrestricted (deficit)	<u>(2,044,770)</u>	<u>(2,779,571)</u>
Total net position (deficit)	<u>\$ (1,458,452)</u>	<u>\$ (2,161,273)</u>

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Academy adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Academy's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$1,385,790 to a deficit of \$2,161,273.

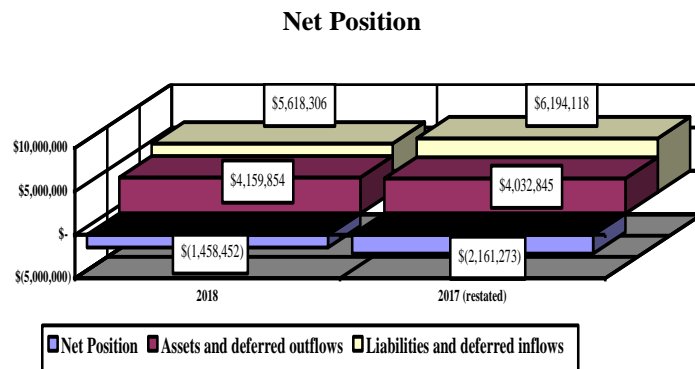
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the Academy's net position totaled a deficit of \$1,458,452.

Current assets decreased primarily in the area of cash and cash equivalents which decreased due to fiscal year 2018 operations. Capital assets, net decreased slightly as depreciation expense exceeded current year additions.

Current liabilities increased primarily in the area of accrued wages and benefits due and payable at fiscal year-end. Long-term liabilities decreased primarily due to a decrease in the Academy's net pension liability. The net pension liability is outside of the control of the Academy. The Academy contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to Academy employees, not the Academy.

At year-end, capital assets represented 76.83% of total assets. Capital assets consisted of land, land improvements, building and improvements, furniture, fixtures and equipment and vehicles. Net investment in capital assets at June 30, 2018, was \$563,086. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Academy's net position, \$23,232 represents resources that are subject to external restrictions on how they may be used. The graph below shows the assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and net position of the Academy at June 30, 2018 and 2017. The amounts at June 30, 2017 have been restated as described in Note 4.



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The table below shows the changes in net position for fiscal year 2018 and 2017. The net position has been restated as described in Note 4.

**Change in Net Position**

	<u>2018</u>	<u>Restated 2017</u>
<b><u>Operating Revenues:</u></b>		
Foundation payments	\$ 2,149,249	\$ 2,049,429
Special education payments	503,076	475,074
Extracurricular	7,985	11,590
Food services	2,791	4,811
Classroom fees	11,111	8,209
Other	<u>12,541</u>	<u>9,559</u>
Total operating revenue	<u>2,686,753</u>	<u>2,558,672</u>
<b><u>Operating Expenses:</u></b>		
Salaries and wages	1,619,193	1,480,935
Fringe benefits	(549,164)	623,022
Purchased services	767,069	638,504
Materials and supplies	256,898	271,552
Depreciation	96,746	93,798
Other	<u>143,237</u>	<u>149,407</u>
Total operating expenses	<u>2,333,979</u>	<u>3,257,218</u>
<b><u>Non-operating Revenues (Expenses):</u></b>		
Grants and subsidies	426,472	668,160
Interest and fiscal charges	<u>(76,425)</u>	<u>(78,899)</u>
Total non-operating revenues	<u>350,047</u>	<u>589,261</u>
Change in net position	702,821	(109,285)
Net position (deficit) at beginning of year	<u>(2,161,273)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (1,458,452)</u>	<u>\$ (2,161,273)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 operating expenses still include OPEB expense of \$6,967 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$77,458. Consequently, in order to compare 2018 total operating expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	\$ 2,333,979
Negative OPEB expense under GASB 75	77,458
2018 contractually required contributions	<u>9,883</u>
Adjusted 2018 operating expenses	2,421,320
Total 2017 operating expenses under GASB 45	<u>3,257,218</u>
Decrease in operating expenses not related to OPEB	<u>\$ (835,898)</u>

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Expenses of the Academy decreased \$923,239 or 28.34%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment (“COLA”) and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the Academy reported (\$716,141) in pension expense and (\$77,458) in OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years. Pension expense is a component of program expenses reported on the statement of activities. To assess fluctuations in program expenses, the increase or decrease in pension expense should be factored into the analysis. Pension expense, by function, for 2018 and 2017 follows:

	2018	2017	Increase
Operating expenses:	Pension	Pension	Increase
	<u>Expense</u>	<u>Expense</u>	<u>(Decrease)</u>
Fringe benefits	<u>\$ (716,141)</u>	<u>\$ 416,059</u>	<u>\$ (1,132,200)</u>

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation basic aid. State foundation basic aid and special education attributed to 85.20% of total operating and non-operating revenues during fiscal year 2018. Foundation revenue from the State of Ohio increased in both the opportunity grant funding and targeted assistance funding. Grants and subsidies decreased primarily due to decreased career technical funding from the State of Ohio in fiscal year 2018.

**Capital Assets**

At June 30, 2018, the Academy had \$2,077,597 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment and vehicles. See Note 6 to the basic financial statements for more detail on capital assets.

**Debt Administration**

At June 30, 2018, the Academy had \$1,514,511 in a mortgage note payable outstanding. Of this total, \$58,453 is due within one year and \$1,456,058 is due in more than one year. See Note 7 to the basic financial statements for more detail on long-term obligations.

**Current Financial Related Activities**

The Academy is reliant upon State Foundation monies and federal grants to provide a maritime based curriculum to students.

In order to continually provide learning opportunities to the Academy’s students, the Academy will apply all financial resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Academy’s Financial Management**

This financial report is designed to provide our clients and creditors 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 financial information contact Anthony T. Swartz, Treasurer, Maritime Academy, 803 Water Street, Toledo, Ohio 43604.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2018

<b>Assets:</b>	
Current assets:	
Cash . . . . .	\$ 576,241
Receivables:	
Accounts . . . . .	72
Intergovernmental. . . . .	38,195
Prepayments . . . . .	11,911
Total current assets . . . . .	626,419
Non-current assets:	
Land. . . . .	68,560
Depreciable capital assets, net . . . . .	2,009,037
Total non-current assets. . . . .	2,077,597
Total assets. . . . .	2,704,016
Deferred outflows of resources:	
Pension (Note 9). . . . .	1,357,866
OPEB (Note 10). . . . .	97,972
Total deferred outflows of resources . . . . .	1,455,838
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	23,529
Accrued wages and benefits . . . . .	149,549
Pension and postemployment benefits payable . . . . .	37,212
Intergovernmental payable . . . . .	36,741
Cash at end of year . . . . .	350
Total current liabilities . . . . .	247,381
Non-current liabilities:	
Due within one year. . . . .	58,453
Net Pension liability (Note 9) . . . . .	2,973,639
Net OPEB liability (Note 10) . . . . .	707,689
Other amounts due in more than one year. . . . .	1,456,058
Total non-current liabilities . . . . .	5,195,839
Total liabilities . . . . .	5,443,220
Deferred inflows of resources:	
Pension (Note 9) . . . . .	96,661
OPEB (Note 10) . . . . .	78,425
Total deferred inflows of resources . . . . .	175,086
<b>Net position:</b>	
Net investment in capital assets. . . . .	563,086
Restricted for:	
Student activities. . . . .	16,218
Locally funded programs. . . . .	7,014
Unrestricted (deficit) . . . . .	(2,044,770)
Total net position (deficit). . . . .	\$ (1,458,452)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Operating revenues:</b>	
Foundation revenue . . . . .	\$ 2,149,249
Special education payments . . . . .	503,076
Extracurricular. . . . .	7,985
Classroom fees. . . . .	11,111
Food service. . . . .	2,791
Other . . . . .	12,541
Total operating revenues . . . . .	<u>2,686,753</u>
<b>Operating expenses:</b>	
Salaries and wages. . . . .	1,619,193
Fringe benefits. . . . .	(549,164)
Purchased services. . . . .	767,069
Materials and supplies . . . . .	256,898
Other. . . . .	143,237
Depreciation . . . . .	96,746
Total operating expenses. . . . .	<u>2,333,979</u>
Operating income. . . . .	<u>352,774</u>
<b>Non-operating revenues (expenses):</b>	
Grants and subsidies. . . . .	426,472
Interest and fiscal charges . . . . .	(76,425)
Total nonoperating revenues (expenses) . . . . .	<u>350,047</u>
Change in net position . . . . .	702,821
<b>Net position (deficit) at beginning of year (restated). . .</b>	<u>(2,161,273)</u>
<b>Net position (deficit) at end of year . . . . .</b>	<u>\$ (1,458,452)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Cash flows from operating activities:</b>	
Cash received from state foundation . . . . .	\$ 2,127,788
Cash received from special education payments . . . . .	503,076
Cash received from classroom fees . . . . .	11,461
Cash received from extracurricular activities . . . . .	7,985
Cash received from food services . . . . .	2,719
Cash received from other operations . . . . .	12,541
Cash payments for salaries and wages . . . . .	(1,598,716)
Cash payments for fringe benefits . . . . .	(485,961)
Cash payments for contractual services . . . . .	(748,681)
Cash payments for materials and supplies . . . . .	(267,236)
Cash payments for other expenses . . . . .	(126,515)
	(561,539)
Net cash (used in) operating activities . . . . .	(561,539)
<b>Cash flows from noncapital financing activities:</b>	
Cash received from grants and subsidies . . . . .	471,481
	471,481
Net cash provided by noncapital financing activities . . . . .	471,481
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(9,447)
Principal retirement on notes payable . . . . .	(55,636)
Interest and fiscal charges . . . . .	(76,425)
	(141,508)
Net cash (used in) capital and related financing activities . . . . .	(141,508)
Net decrease in cash and cash equivalents . . . . .	(231,566)
<b>Cash at beginning of year . . . . .</b>	<b>807,807</b>
<b>Cash at end of year . . . . .</b>	<b>\$ 576,241</b>
<b>Reconciliation of operating income to net cash used in operating activities:</b>	
Operating income . . . . .	\$ 352,774
Adjustments:	
Depreciation . . . . .	96,746
Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	21,310
(Increase) in intergovernmental receivable . . . . .	(32,927)
Decrease in prepayments . . . . .	6,206
Increase in accounts payable . . . . .	2,550
Increase in accrued wages and benefits . . . . .	21,804
(Decrease) in intergovernmental payable . . . . .	(4,667)
Increase in unearned revenue . . . . .	350
Increase in pension and postemployment benefits payable . . . . .	1,625
(Increase) in deferred outflows - pension . . . . .	(394,467)
(Increase) in deferred outflows - OPEB . . . . .	(91,005)
Increase in deferred inflows - pension . . . . .	93,702
Increase in deferred inflows - OPEB . . . . .	78,425
(Decrease) in net pension liability . . . . .	(639,204)
(Decrease) in net OPEB liability . . . . .	(74,761)
	(561,539)
Net cash (used in) operating activities . . . . .	\$ (561,539)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

Martime Academy of Toledo (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. 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 through 12) that incorporates Navy Sea Cadet formation and a U.S. Coast Guard Junior Reserved Officers Training Corps. 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 non-sectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed and contract for any services necessary for operation of the Academy.

The Academy operates under a Sponsorship Agreement with the Educational Service Center of Central Ohio (previously known as Franklin County Educational Service Center) (the “Sponsor”). The current Sponsorship Agreement is for the period July 1, 2016 through June 30, 2019. 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. See Note 14 for more information on the Academy’s agreement with its Sponsor.

The Academy operates under the direction of a Governing Board (the “Board”). The 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 instructional/support facility staffed by 18 non-certified and 28 certified teaching personnel who provide services to 274 students.

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

The more significant of the Academy’s policies are described below.

**A. Basis of Presentation**

The Academy’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. The Academy uses enterprise accounting to track and report its financial activities. Enterprise reporting focuses on the determination of the change in net position, financial position and cash flows.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**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 plus deferred outflows and all liabilities plus deferred inflows are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 basic financial statements. The Academy's basic 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.

Revenues resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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. Deferred Outflows of Resources and Deferred Inflows of Resources**

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, see Note 9 and 10 for deferred outflows of resources related to the Academy's net pension liability and net OPEB liability, respectively.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, see Note 9 and 10 for deferred inflows of resources related to the Academy's net pension liability and net OPEB liability.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

**E. Budgetary Process**

Community schools are statutorily required to adopt a budget by Ohio Revised Code (ORC) 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the ORC Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not require the Academy to follow the provisions ORC Chapter 5705; therefore, no budgetary information is presented in the basic financial statements. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis. Chapter 3314.03(A)(11)(d) of the ORC requires the Academy to prepare a five-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**F. Cash**

Cash held by the Academy is reflected as “cash” on the statement of net position. All monies received by the Academy are deposited in demand deposit accounts. During fiscal year 2018, the Academy had no investments.

**G. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Basic Aid and Special Education Programs. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and State grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program Basic Aid totaled \$2,149,249 and those associated with Special Education grants from the State of Ohio totaled \$503,076 during fiscal year 2018.

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2018, 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.

**I. Capital Assets and Depreciation**

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 acquisition value as of the date received. The Academy maintains a capitalization threshold of \$1,500. The Academy does not possess any infrastructure. Improvements are capitalized; however, 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.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and improvements	40 years
Furniture, Fixtures and Equipment	5 - 15 years
Vehicles	6 - 15 years

**J. Accrued Liabilities Payable**

The Academy has recognized certain liabilities on the statement of net position relating to expenses, which are due, but unpaid as of June 30, 2018 including:

*Accounts payable* - payments goods or services rendered or received prior to June 30 that were paid in the subsequent fiscal year.

*Accrued wages and benefits payable* - salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2018 contract.

*Pension and postemployment benefits payable* - payments for the employer's share of the retirement contributions and SERS surcharge.

*Intergovernmental payable* - payments for Medicare and amounts due to other governments associated with services rendered during fiscal year 2018 that were paid in the subsequent fiscal year.

**K. Compensated Absences**

Full-time administrative employees earn two to four weeks vacation leave each year and may carry-over any unused vacation leave to subsequent school years. Unused vacation leave will not be paid to any other employees upon separation of employment.

Full time professional employees earn five sick days per year and full-time administrative staff earn five to fifteen sick days per year. Sick leave may not be accumulated. Unused sick leave is not paid out to employees upon separation of employment.

Professional employees earn one personal day per year and full-time administrative personnel earn two personal days per year. Personal leave may not be accumulated. Unused personal days are not paid out to employees upon separation of employment.

**L. Pensions/Other Postemployment Benefits (OPEB)**

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

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its 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 first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly by the Academy’s primary mission. For the Academy, these revenues are primarily State of Ohio foundation payments. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Academy. Operating expenses include, salaries and wages, fringe benefits, purchased services, material and supplies, depreciation and other miscellaneous expenses. Revenues and expenses not meeting these definitions are reported as non-operating.

**O. Estimates**

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

**P. Federal Tax Exemption Status**

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a 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.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2018, the Academy had neither type of transaction.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

At June 30, 2018, the carrying amount of Academy deposits was \$576,241 and the bank balance of Academy deposits was \$651,152. Of the bank balance, \$250,000 was covered by the FDIC and \$401,152 was uninsured and collateralized by securities held by the financial institution's trust department or agent but not in the name of the Academy. There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**B. Investments**

The Academy had no investments at June 30, 2018.

**NOTE 4 - ACCOUNTABILITY**

**Change in Accounting Principles**

For fiscal year 2018, the Academy has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the Academy's postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements, and added required supplementary information which is presented on pages 44 - 57.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Academy.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 4 - ACCOUNTABILITY – (Continued)**

A net position restatement is required in order to implement GASB Statement No 75. The net position at July 1, 2017 have been restated as follows:

	Net Position
Net position as previously reported	\$ (1,385,790)
Deferred outflows - payments subsequent to measurement date	6,967
Net OPEB liability	(782,450)
Restated net position at July 1, 2017	\$ (2,161,273)

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2018, consisted of intergovernmental receivables arising from grants and entitlements and accounts receivable related to food service operations and charges for services. All receivables are considered collectable in full. A summary of the principal items of intergovernmental receivables follows:

<b>Intergovernmental Receivables:</b>	Amount
Ohio Bureau of Worker's Compensation	\$ 6,326
Erate reimbursement	20,107
SERS refund	11,762
Total	\$ 38,195

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance			Balance
	<u>06/30/17</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/18</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 68,560	\$ -	\$ -	\$ 68,560
Total capital assets, not being depreciated	<u>68,560</u>	<u>-</u>	<u>-</u>	<u>68,560</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	86,967	3,215	-	90,182
Buildings and improvements	2,172,810	-	-	2,172,810
Furniture, fixtures and equipment	388,512	6,232	-	394,744
Vehicles	45,000	-	-	45,000
Total capital assets, being depreciated	<u>2,693,289</u>	<u>9,447</u>	<u>-</u>	<u>2,702,736</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(30,223)	(4,905)	-	(35,128)
Building	(352,763)	(54,499)	-	(407,262)
Furniture, fixtures and equipment	(199,800)	(34,343)	-	(234,143)
Vehicles	(14,167)	(2,999)	-	(17,166)
Total accumulated depreciation	<u>(596,953)</u>	<u>(96,746)</u>	<u>-</u>	<u>(693,699)</u>
Capital assets, net	<u>\$ 2,164,896</u>	<u>\$ (87,299)</u>	<u>\$ -</u>	<u>\$ 2,077,597</u>

**NOTE 7 - LONG-TERM OBLIGATIONS**

The changes in the Academy's long-term obligations during the year consist of the following. The Academy's long-term obligations have been restated as described in Note 4.

	Restated			Balance	Amounts
	<u>6/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/18</u>	<u>Due in</u>
					<u>One Year</u>
Note payable - F&M Bank	\$ 1,570,147	\$ -	\$ (55,636)	\$ 1,514,511	\$ 58,453
Net pension liability	3,612,843	-	(639,204)	2,973,639	-
Net OPEB liability	782,450	-	(74,761)	707,689	-
Total long-term liabilities	<u>\$ 5,965,440</u>	<u>\$ -</u>	<u>\$ (769,601)</u>	<u>\$ 5,195,839</u>	<u>\$ 58,453</u>

See Note 9 for detail on the net pension liability.

See Note 10 for detail on the net OPEB liability.

**MARITIME ACADEMY OF TOLEDO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 7 - LONG-TERM OBLIGATIONS – (Continued)**

On August 24, 2015, the Academy borrowed a \$1,664,345 mortgage note payable from Farmers & Merchants State Bank to refinance its mortgage note payable from Genoa Bank to take advantage of better interest rates. This note is a 10 year note, bears an interest rate of 4.95 percent, and matures August 24, 2025. The note is being amortized over 240 monthly payments and will require a balloon payment of unpaid principal and interest on August 24, 2025. Principal and interest payments are made by the Academy monthly. The Academy made \$55,636 and \$76,425 in principal and interest payments, respectively, in fiscal year 2018.

The following is a summary of the future annual debt service requirements to maturity for the mortgage note with Farmers & Merchants State Bank:

Fiscal Year Ending June 30,	Farmers & Merchants Bank		
	Principal	Interest	Total
2019	\$ 58,453	\$ 73,608	\$ 132,061
2020	61,413	70,648	132,061
2021	64,523	67,538	132,061
2022	67,791	64,271	132,062
2023	71,223	60,838	132,061
2024 - 2026	<u>1,191,108</u>	<u>119,198</u>	<u>1,310,306</u>
Total	<u>\$ 1,514,511</u>	<u>\$ 456,101</u>	<u>\$ 1,970,612</u>

**NOTE 8 - RISK MANAGEMENT**

**A. Insurance Coverage**

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. For the fiscal year ended June 30, 2018, the Academy contracted with the Hanover Insurance Company for insurance coverage as follows:

Blanket Building & BPP	\$ 10,504,000
Commercial General Liability per occurrence	1,000,000
Commercial General Liability aggregate	2,000,000
Commercial General Liability Personal and Advertising Injury	1,000,000
Products/Completed Operations aggregate	2,000,000
Excess/Umbrella per occurrence and aggregate	5,000,000
Sexual/Physical Abuse or Molestation per occurrence and aggregate	1,000,000
Employee Benefits Liability per occurrence and aggregate	1,000,000
Stop Gap Liability per occurrence and aggregate	1,000,000
Fire Damage Limit	1,000,000
Medical Expenses (any one person)	15,000

Settlements have not exceeded insurance coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2017.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 8 - RISK MANAGEMENT – (Continued)**

**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, Dental and Vision Benefits**

The Academy has contracted through an independent agent to provide employee medical, dental and vision insurance to its full time employees who work 25 or more hours per week. The Academy pays 70 percent and the employee pays 30 percent of the monthly premiums for all selected coverage (medical, dental and vision insurance).

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Plan Description - School Employees Retirement System (SERS)***

Plan Description - The Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$63,823 for fiscal year 2018. Of this amount, \$1,952 is reported as pension and postemployment benefits payable.

**MARITIME ACADEMY OF TOLEDO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Plan Description - State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$160,005 for fiscal year 2018. Of this amount, \$27,741 is reported as pension and postemployment benefits payable.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01212520%	0.00814205%	
Proportion of the net pension liability current measurement date	<u>0.01258610%</u>	<u>0.00935225%</u>	
Change in proportionate share	<u>0.00046090%</u>	<u>0.00121020%</u>	
Proportionate share of the net pension liability	\$ 751,992	\$ 2,221,647	\$ 2,973,639
Pension expense	\$ 5,854	\$ (721,995)	\$ (716,141)

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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 32,363	\$ 85,789	\$ 118,152
Changes of assumptions	38,886	485,898	524,784
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	54,187	436,915	491,102
Academy contributions subsequent to the measurement date	<u>63,823</u>	<u>160,005</u>	<u>223,828</u>
Total deferred outflows of resources	<u>\$ 189,259</u>	<u>\$ 1,168,607</u>	<u>\$ 1,357,866</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 17,906	\$ 17,906
Net difference between projected and actual earnings on pension plan investments	3,567	73,317	76,884
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	<u>1,871</u>	<u>-</u>	<u>1,871</u>
Total deferred inflows of resources	<u>\$ 5,438</u>	<u>\$ 91,223</u>	<u>\$ 96,661</u>

\$223,828 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 63,082	\$ 235,814	\$ 298,896
2020	56,331	335,550	391,881
2021	18,116	234,224	252,340
2022	<u>(17,531)</u>	<u>111,791</u>	<u>94,260</u>
Total	<u>\$ 119,998</u>	<u>\$ 917,379</u>	<u>\$ 1,037,377</u>



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*Actuarial Assumptions - SERS*

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 1,043,569	\$ 751,992	\$ 507,736

**MARITIME ACADEMY OF TOLEDO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*Actuarial Assumptions - STRS Ohio*

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$ 3,184,655	\$ 2,221,647	\$ 1,410,457

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LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS**

*Net OPEB Liability*

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

***Plan Description - School Employees Retirement System (SERS)***

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

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**NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was \$7,519.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$9,883 for fiscal year 2018. Of this amount, \$7,589 is reported as pension and postemployment benefits payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Net OPEB Liability***

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01217425%	0.00814205%	
Proportion of the net OPEB liability current measurement date	<u>0.01277320%</u>	<u>0.00935225%</u>	
Change in proportionate share	<u>0.00059895%</u>	<u>0.00121020%</u>	
Proportionate share of the net OPEB liability	\$ 342,799	\$ 364,890	\$ 707,689
OPEB expense	\$ 24,641	\$ (102,099)	\$ (77,458)

At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 21,063	\$ 21,063
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	11,550	55,476	67,026
Academy contributions subsequent to the measurement date	<u>9,883</u>	<u>-</u>	<u>9,883</u>
Total deferred outflows of resources	<u>\$ 21,433</u>	<u>\$ 76,539</u>	<u>\$ 97,972</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 906	\$ 15,596	\$ 16,502
Changes of assumptions	<u>32,530</u>	<u>29,393</u>	<u>61,923</u>
Total deferred inflows of resources	<u>\$ 33,436</u>	<u>\$ 44,989</u>	<u>\$ 78,425</u>

**MARITIME ACADEMY OF TOLEDO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

\$9,883 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (7,827)	\$ 3,959	\$ (3,868)
2020	(7,827)	3,959	(3,868)
2021	(6,004)	3,959	(2,045)
2022	(226)	3,959	3,733
2023	(2)	7,858	7,856
Thereafter	-	7,856	7,856
Total	<u>\$ (21,886)</u>	<u>\$ 31,550</u>	<u>\$ 9,664</u>

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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



**MARITIME ACADEMY OF TOLEDO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

**Discount Rate** - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	\$ 413,974	\$ 342,799	\$ 286,411

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Academy's proportionate share of the net OPEB liability	\$ 278,156	\$ 342,799	\$ 428,356

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u><u>100.00 %</u></u>	

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)**

*Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate* - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's proportionate share of the net OPEB liability	\$ 489,859	\$ 364,890	\$ 266,124

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 253,510	\$ 364,890	\$ 511,480

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**Compensated Absences**

Full-time administrative staff earn from two to four weeks vacation leave each year. Unused vacation does not carryover to subsequent fiscal years unless specified in the employees' contract and is not paid out to employees upon separation of employment. No liability is recorded at June 30, 2018.

Full time professional employees earn five sick days per year and full-time administrative staff earn five sick days per year. All employees may carryover two sick days to subsequent fiscal years. Unused sick leave is not paid out to employees upon separation of employment. No liability for sick leave is recorded at June 30, 2018.

Professional employees earn two personal days per year and full-time administrative personnel earn two personal days per year. Personal leave may not be accumulated. Unused personal days are not paid out to employees upon separation of employment. No liability for unused personal leave is recorded at June 30, 2018.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 12 - OPERATING LEASES**

**A. Toledo-Lucas County Port Authority**

On April 28, 2014, the Academy entered into a lease for office space at One Maritime Plaza, Toledo, Ohio from the Toledo-Lucas County Port Authority. The term of the lease is 60 months and commenced on May 1, 2014. Total rent expense for the fiscal year ended June 30, 2018 was \$109,862. The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2018:

Fiscal Year <u>Ended June 30,</u>	<u>Building Rent</u>
2019	\$ 91,551
Total	<u>\$ 91,551</u>

On January 31, 2017, the Academy entered into a lease for an additional 1,230 square feet of office space at One Maritime Plaza, Toledo, Ohio from the Toledo-Lucas County Port Authority. The term of the lease is for 36 months and commenced on February 1, 2017. Total rent expense for the fiscal year ended June 30, 2018 was \$19,680. The table is a schedule of the future minimum payments required under the operating lease as of June 30, 2018.

Fiscal Year <u>Ended June 30,</u>	<u>Building Rent</u>
2019	\$ 19,680
2020	11,480
Total	<u>\$ 31,160</u>

On February 3, 2017, the Academy entered into a sublease agreement with the Sea School Great Lakes where the Sea School Great Lakes will pay the Academy \$1,640 a month for 36 months. The Academy received \$19,680 in rental payments during the fiscal year to offset the Academy's lease payments for the additional space. The table is a schedule of the future minimum rentals to be received from the operating lease as of June 30, 2018.

Fiscal Year <u>Ended June 30,</u>	<u>Building Rent</u>
2019	\$ 19,680
2020	11,480
Total	<u>\$ 31,160</u>

**B. VStep Simulator**

On September 20, 2013, the Academy entered into a lease for service, software and on-site service from the company VStep for the ongoing use of Nautis MFMBs Maritime Simulators. The term of the lease is ten years and commenced on September 20, 2012. Total expenses for this lease for the fiscal year ended June 30, 2018 was \$57,432. The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2018:

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 12 - OPERATING LEASES – (Continued)**

Fiscal Year Ended June 30.	Lease Payments
2019	\$ 47,920
2020	47,920
2021	47,920
2022	47,920
2023	47,920
2024	23,960
Total	\$ 263,560

**NOTE 13 - PURCHASED SERVICES**

For the year ended June 30, 2018, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and technical services	\$ 159,735
Property services	248,557
Travel mileage/meeting expense	24,499
Communications	104,191
Utilities	113,150
Contracted craft or trade	83,283
Tuition	11,592
Pupil transportation	2,356
Other	19,706
Total Purchased Services	\$ 767,069

**NOTE 14 - SPONSOR CONTRACT**

The Academy entered into a three-year contract with the Sponsor for the period July 1, 2016 through June 30, 2019. Under the contract, the following terms were agreed upon:

- The Academy shall comply with the policies and provisions described in the “Educational Program”, which contains the Academy’s mission, educational philosophy, the ages and grades of students, the characteristics of the students the Academy is expected to attract, and the focus of the curriculum.
- The Academy shall comply with a “Financial Plan”, which details an estimated school budget for each year of the period of the contract and shall specify the total estimated per pupil expenditure amount for each such year.
- The Academy shall comply with the procedures by which the members of the Academy will be selected in the future as set forth in the “Governance and Administrative Plan”.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 14 – SPONSOR CONTRACT - (Continued)**

- The Academy shall agree to assess student achievement of academic goals using the methods of measurement identified in the “Assessment and Accountability Plan”.
- The Sponsor shall evaluate the performance of the Academy and agrees to comply with the standards by which the success of the Academy will be evaluated.

The Academy paid \$55,536 in sponsorship fees to the Sponsor during fiscal year 2018.

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure 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. This also encompasses the Auditor of State’s ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2018, if applicable, cannot be determined at this time.

**B. Litigation**

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**C. State Foundation Funding**

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform an FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2018. As a result of the fiscal year 2018 reviews, the Academy owes \$16,276 to ODE. This amount has been reported as intergovernmental payable on the statement of net position.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 15 – CONTINGENCIES – (Continued)**

In addition, the Academy's contracts with their Sponsor, require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy.

**D. State Academic Performance Requirements**

Ohio Revised Code Sections 3314.35 and 3314.351 provide for automatic closure of community schools with continued poor academic performance. The Ohio Department of Education has informed the Academy that it is at risk for automatic closure if it does not meet certain academic performance criteria for the 2018-2019 school year. In addition, the Academy is required to submit a school improvement plan to the Ohio Department of Education. The Academy has submitted their plan by the required deadline.

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.01258610%	0.01212520%	0.01220770%	0.01007900%	0.01007900%
Academy's proportionate share of the net pension liability	\$ 751,992	\$ 887,453	\$ 696,583	\$ 510,092	\$ 599,366
Academy's covered payroll	\$ 459,257	\$ 414,286	\$ 367,504	\$ 292,872	\$ 239,588
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	163.74%	214.21%	189.54%	174.17%	250.17%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.00935225%	0.00814205%	0.00780231%	0.00704478%	0.00704478%
Academy's proportionate share of the net pension liability	\$ 2,221,647	\$ 2,725,390	\$ 2,156,330	\$ 1,713,534	\$ 2,041,151
Academy's covered payroll	\$ 1,106,550	\$ 857,521	\$ 822,136	\$ 719,777	\$ 654,777
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	200.77%	317.82%	262.28%	238.06%	311.73%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY PENSION CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 63,823	\$ 64,296	\$ 58,000	\$ 48,437
Contributions in relation to the contractually required contribution	<u>(63,823)</u>	<u>(64,296)</u>	<u>(58,000)</u>	<u>(48,437)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 472,763	\$ 459,257	\$ 414,286	\$ 367,504
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 40,592	\$ 33,159	\$ 38,117	\$ 38,153	\$ 28,663	\$ 11,418
<u>(40,592)</u>	<u>(33,159)</u>	<u>(38,117)</u>	<u>(38,153)</u>	<u>(28,663)</u>	<u>(11,418)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 292,872	\$ 239,588	\$ 283,398	\$ 303,524	\$ 211,691	\$ 116,037
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY PENSION CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 160,005	\$ 154,917	\$ 120,053	\$ 115,099
Contributions in relation to the contractually required contribution	<u>(160,005)</u>	<u>(154,917)</u>	<u>(120,053)</u>	<u>(115,099)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 1,142,893	\$ 1,106,550	\$ 857,521	\$ 822,136
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 93,571	\$ 85,121	\$ 79,883	\$ 90,682	\$ 80,893	\$ 43,658
<u>(93,571)</u>	<u>(85,121)</u>	<u>(79,883)</u>	<u>(90,682)</u>	<u>(80,893)</u>	<u>(43,658)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 719,777	\$ 654,777	\$ 614,485	\$ 697,554	\$ 622,254	\$ 335,831
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
Academy's proportion of the net OPEB liability	0.01277320%	0.01217425%
Academy's proportionate share of the net OPEB liability	\$ 342,799	\$ 347,011
Academy's covered payroll	\$ 459,257	\$ 414,286
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	74.64%	83.76%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
Academy's proportion of the net OPEB liability	0.00935225%	0.00814205%
Academy's proportionate share of the net OPEB liability	\$ 364,890	\$ 435,439
Academy's covered payroll	\$ 1,106,550	\$ 857,521
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	32.98%	50.78%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY OPEB CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 9,883	\$ 6,967	\$ 5,674	\$ 7,093
Contributions in relation to the contractually required contribution	<u>(9,883)</u>	<u>(6,967)</u>	<u>(5,674)</u>	<u>(7,093)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 472,763	\$ 459,257	\$ 414,286	\$ 367,504
Contributions as a percentage of covered payroll	2.09%	1.52%	1.37%	1.93%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 4,610	\$ 3,953	\$ 5,546	\$ 7,513	\$ 2,404	\$ 3,358
<u>(4,610)</u>	<u>(3,953)</u>	<u>(5,546)</u>	<u>(7,513)</u>	<u>(2,404)</u>	<u>(3,358)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 292,872	\$ 239,588	\$ 283,398	\$ 303,524	\$ 211,691	\$ 116,037
1.57%	1.65%	1.96%	2.48%	1.14%	2.89%

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY OPEB CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 1,142,893	\$ 1,106,550	\$ 857,521	\$ 822,136
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 7,958	\$ 6,548	\$ 6,145	\$ 6,976	\$ 6,223	\$ 5,226
<u>(7,958)</u>	<u>(6,548)</u>	<u>(6,145)</u>	<u>(6,976)</u>	<u>(6,223)</u>	<u>(5,226)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 719,777	\$ 654,777	\$ 614,485	\$ 697,554	\$ 622,254	\$ 335,831
1.11%	1.00%	1.00%	1.00%	1.00%	1.56%

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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PENSION

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

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

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

**MARITIME ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

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

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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**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**

Board of Directors  
Maritime Academy of Toledo  
Lucas County  
803 Water Street  
Toledo, Ohio 43604

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 Maritime Academy of Toledo, Lucas County (“Academy”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements and have issued our report thereon dated January 7, 2019, in which we noted that the Academy adopted new accounting guidance, *GASBS 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy’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 Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Directors  
Maritime Academy of Toledo  
Lucas County

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy'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 Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 7, 2019

OHIO AUDITOR OF STATE  
**KEITH FABER**



**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  
MARCH 26, 2019**