



Dave Yost • Auditor of State

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

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HARDIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Hardin Northern Local School District
Hardin County
11589 State Route 81
Dola, Ohio 45835

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hardin Northern Local School District, Hardin County, Ohio (the District), as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Hardin Northern Local School District, Hardin County, Ohio, as of June 30, 2016 and 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis or to the schedules of net pension liabilities and pension contributions as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

July 20, 2017

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

The discussion and analysis of the Hardin Northern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net cash position of governmental activities increased \$1,093,037 which represents an 26.10% increase from 2015.
- General cash receipts accounted for \$6,094,165 or 85.30% of all cash receipts. Program specific cash receipts in the form of charges for services and sales, and grants and contributions accounted for \$1,050,506 or 14.70% of total cash receipts of \$7,144,671.
- The District had \$6,051,634 in cash disbursements related to governmental activities; \$1,050,506 of these expenses was offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,094,165 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$6,268,764 in cash receipts and \$5,373,140 in cash disbursements and other financing uses. During fiscal year 2016, the general fund's fund cash balance increased \$895,624 from a balance of \$3,637,827 to \$4,533,451.

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position - Cash Basis* and *Statement of Activities - Cash Basis* provide information about the activities of the whole District, presenting an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund is the only major fund.

Reporting the District as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position - cash basis and statement of activities - cash basis answer the question, "How did we do financially during 2016?" These statements include *net cash position* using the *cash basis of accounting*, which is a basis of accounting other than GAAP. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

These two statements report the District's net cash position and changes in that position on a cash basis. This change in net cash position is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In addition, deferred outflows of resources and deferred inflows of resources are also not presented. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis the governmental activities include District's programs and services including instruction, support services including operation and maintenance of plant and pupil transportation, extracurricular activities, and food service operations.

The statement of net position - cash basis and statement of activities - cash basis can be found on pages 11-12 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 8. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than GAAP. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

The governmental fund statements can be found on pages 13-14 of this report.

The District's budgetary process accounts for certain transactions on a cash-basis plus encumbrances. The budgetary statement for the general fund is presented to demonstrate the District's compliance with annually adopted budgets. The budgetary statement can be found on page 15 of this report.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statement of fiduciary net position - cash basis on page 16. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance 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 government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 17-41 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2016 and June 30, 2015.

	Net Cash Position	
	Governmental Activities 2016	Governmental Activities 2015
Assets:		
Equity in pooled cash and cash equivalents	\$5,280,784	\$4,187,747
Total assets	5,280,784	4,187,747
Net Cash Position:		
Restricted	744,574	548,000
Unrestricted	4,536,210	3,639,747
Total net cash position	\$5,280,784	\$4,187,747

The total net cash position of the District increased \$1,093,037 which represents an 26.10% increase from fiscal year 2015. A portion of the District's net cash position, \$744,574, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$4,536,210 may be used to meet the District's ongoing obligations to the students and creditors.

The table below shows the change in net cash assets for fiscal years 2016 and 2015.

	Change in Net Position	
	Governmental Activities 2016	Governmental Activities 2015
Receipts:		
Program cash receipts:		
Charges for services and sales	\$577,564	\$591,681
Operating grants and contributions	472,103	470,782
Capital grants and contributions	839	23,219
General cash receipts:		
Property taxes	2,092,421	1,859,837
Income taxes	960,565	932,198
Grants and entitlements	3,024,325	2,538,228
Investment earnings	13,098	6,868
Other	3,756	5,205
Total receipts	\$7,144,671	\$6,428,018

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

Charges for services and sales program cash receipts decreased \$14,117 from the prior year. This decrease can be attributed to a decrease of open enrollment tuition receipts and decreases in sport oriented extracurricular activities. Property tax cash receipts increased \$232,584 due to increases in valuation. Income tax receipts increased \$28,367 from the prior year. Grants and entitlements increased \$486,097 due primarily to increases in school foundation basic allowance.

	Change in Net Cash Position	
	Governmental Activities 2016	Governmental Activities 2015
Cash disbursements:		
Program disbursements:		
Instruction:		
Regular	\$2,616,348	\$2,646,608
Special	514,153	485,971
Vocational	198,859	222,407
Support services:		
Pupil	283,214	227,907
Instructional staff	196,785	184,733
Board of education	31,223	34,876
Administration	473,034	455,157
Fiscal	212,845	217,797
Operations and maintenance	563,635	532,506
Pupil transportation	205,509	217,774
Central	542	540
Operation of non-instructional services:		
Food service operations	178,508	162,645
Extracurricular activities	257,380	235,549
Facilities acquisition and construction		55,763
Debt service:		
Principal and interest	137,244	132,014
Interest and fiscal charges	182,355	186,042
Total cash disbursements	6,051,634	5,998,289
Change in net cash position	1,093,037	429,729
Net cash position at beginning of year	4,187,747	3,758,018
Net cash position at end of year	\$5,280,784	\$4,187,747

Governmental Activities

Net cash position of the District's governmental activities increased \$1,093,037. Total governmental cash disbursements of \$6,051,634 were offset by program cash receipts of \$1,050,506 and general cash receipts of \$6,094,165. Program cash receipts supported 17.36% of the total governmental cash disbursements. The largest governmental disbursements were instructional disbursements which totaled \$3,329,360 or 55.02% of total governmental disbursements for fiscal 2016.

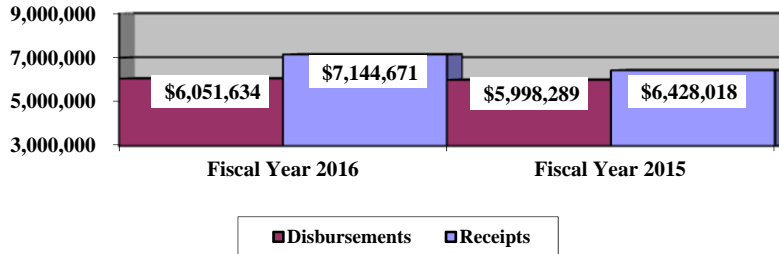
The primary sources of receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 85.06% of total governmental receipts.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2016 and 2015.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

Governmental Activities - Cash Receipts and Cash Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services, which identifies the cost of these services supported by tax receipts and unrestricted State grants and entitlements.

Governmental Activities				
	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Cash disbursements:				
Instruction:				
Regular	\$2,616,348	\$2,214,404	\$2,646,608	\$2,211,943
Special	514,153	209,643	485,971	186,330
Vocational	198,859	161,736	222,407	180,682
Support services:				
Pupil	283,214	281,479	227,907	225,982
Instructional staff	196,785	166,043	184,733	149,810
Board of education	31,223	31,223	34,876	34,876
Administration	473,034	473,034	455,157	455,157
Fiscal	212,845	212,845	217,797	217,797
Operations and maintenance	563,635	555,962	532,506	509,287
Pupil transportation	205,509	205,509	217,774	217,774
Central	542	542	540	540
Operation of non-instructional services:				
Food service operations	178,508	(12,294)	162,645	(11,132)
Extracurricular activities	257,380	181,403	235,549	159,742
Facilities acquisition and construction			55,763	55,763
Debt service:				
Principal retirement	137,244	137,244	132,014	132,014
Interest and fiscal charges	182,355	182,355	186,042	186,042
Total cash disbursements	\$6,051,634	\$5,001,128	\$5,998,289	\$4,912,607

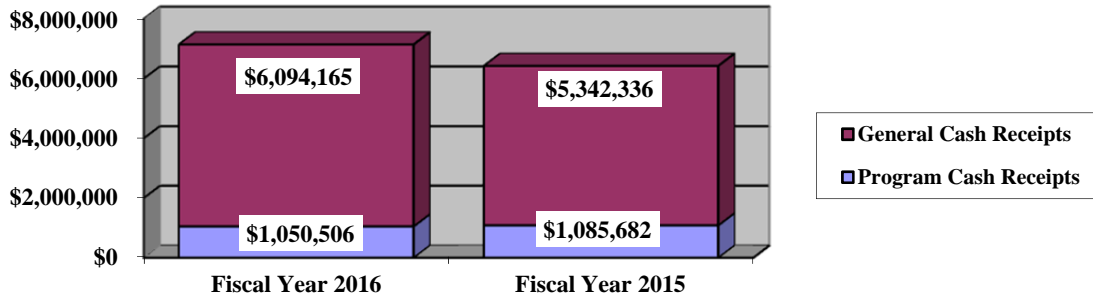
The dependence upon general cash receipts for governmental activities is apparent; with 82.64% of cash disbursements supported through taxes and other general cash receipts during 2016.

The graph below presents the District's governmental activities cash receipts for fiscal years 2016 and 2015.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$5,280,784, which is higher than last year's total cash balance of \$4,187,747. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2016 and June 30, 2015.

	<u>Fund Cash Balance</u> <u>June 30, 2016</u>	<u>Fund Cash Balance</u> <u>June 30, 2015</u>	<u>Increase</u>	<u>Percentage</u> <u>Change</u>
General	\$4,533,451	\$3,637,827	\$895,624	24.62 %
Other Governmental	747,333	549,920	197,413	35.90 %
Total	<u>\$5,280,784</u>	<u>\$4,187,747</u>	<u>\$1,093,037</u>	26.10 %

General Fund

The general fund, the District's largest major fund, had cash receipts of \$6,268,764 in 2016. The cash disbursements and other financing uses of the general fund, totaled \$5,373,140 in 2016. The general fund's cash balance increased \$895,624 or 24.62% from 2015 to 2016.

Overall cash receipts increased \$725,322 or 13.08% during fiscal year 2016. Taxes increased 10.28% due to increased property tax collections as a result of increased assessed values. Intergovernmental revenues increased 18.86% due to increased funding from State Foundation. All other receipts remained comparable to fiscal year 2016.

Overall cash disbursements increased \$89,246 or 1.76% during fiscal year 2016. Support Services increased by 5.12% due to an increase in pupil and instructional staff disbursements. All other disbursements remained comparable to fiscal year 2015.

The table that follows assists in illustrating the financial activities and fund cash balance of the general fund.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Cash receipts:				
Taxes	\$2,724,362	\$2,470,326	\$254,036	10.28 %
Tuition	376,081	409,922	(33,841)	(8.26) %
Transportation fees	5,893		5,893	100.00 %
Earnings on investments	12,973	6,837	6,136	89.75 %
Intergovernmental	3,125,549	2,629,676	495,873	18.86 %
Other revenues	23,906	26,681	(2,775)	(10.40) %
Total	<u>\$6,268,764</u>	<u>\$5,543,442</u>	<u>\$725,322</u>	<u>13.08 %</u>
Cash disbursements:				
Instruction	\$3,131,723	\$3,142,875	(\$11,152)	(0.35) %
Support services	1,864,552	1,773,783	90,769	5.12 %
Extracurricular activities	165,030	155,401	9,629	6.20 %
Total	<u>\$5,161,305</u>	<u>\$5,072,059</u>	<u>\$89,246</u>	<u>1.76 %</u>

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, final budgetary basis receipts and other financing sources of \$6,233,145 were \$552,290 more than the original budget estimates of \$5,680,855. Actual cash receipts and other financing sources of \$6,276,124 were more than final budget estimates by \$42,979. The final budgetary basis disbursements and other financing uses of \$5,542,436 were the same as the original budget estimates of \$5,542,436. The actual budgetary basis disbursements and other financing uses of \$5,431,145 were \$111,291 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2016, the District had \$3,824,944 in school improvement bonds and capital lease obligations. Of the total long term obligations, \$144,940 is due in one year and \$3,680,004 is due in greater than one year. The following table summarizes the long term obligations outstanding at June 30, 2016 and 2015.

	Outstanding Debt, at Year End	
	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
School improvement bond	\$3,055,000	\$3,135,000
Capital lease obligations	769,944	827,188
Total	<u>\$3,824,944</u>	<u>\$3,962,188</u>

At June 30, 2016 the District had a legal voted debt margin of \$5,856,342, and an un-voted debt margin of \$97,510. See Note 8 to the basic financial statements for additional information on the District's debt administration.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

Current Financial Related Activities

Our District, like most other Districts, continues to face many challenges this year and in the years to come. As the preceding information shows, the District relies heavily upon property taxes, income taxes (1 3/4% continuing), and unrestricted State aid. Locally, the District has very little industry within its boundaries, which makes the property tax and income tax even more vital to the District's operation and existence. The District did have receipts in excess of disbursements in the amount of \$1,093,037 for fiscal year 2016.

In regards to State funding, our largest area of receipts, the biennial State budget which impacts fiscal year 2016, does indicate increases in our State receipts.

Due to unsettled issues in Ohio public school funding, the District management is required to plan carefully and prudently to provide the resources to meet student needs in the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers, and our creditors and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mr. Wes Potter, Treasurer of Hardin Northern Local School District, 11589 State Route 81, Dola, Ohio, 45835.

HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,280,784
Total Assets	<u>\$5,280,784</u>
Net Cash Position	
Restricted for:	
Capital Projects	430,045
Classroom Facilities Maintenance	74,351
Debt Service	135,444
State Funded Programs	100
Federally Funded Programs	3,441
Student Activities	21,087
Food Service Operations	80,106
Unrestricted	4,536,210
Total Net Cash Position	<u>\$5,280,784</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position	
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Total
Governmental Activities:					
Instruction:					
Regular	\$2,616,348	\$393,637	\$8,307		(\$2,214,404)
Special	514,153	3,318	301,192		(209,643)
Vocational Education	198,859		37,123		(161,736)
Support Services:					
Pupil	283,214		1,735		(281,479)
Instructional Staff	196,785		30,742		(166,043)
Board of Education	31,223				(31,223)
Administration	473,034				(473,034)
Fiscal	212,845				(212,845)
Operation and Maintenance	563,635		6,834	839	(555,962)
Pupil Transportation	205,509				(205,509)
Central	542				(542)
Operation of Non-Instructional Services:					
Food Services Operations	178,508	104,936	85,866		12,294
Extracurricular Activities	257,380	75,673	304		(181,403)
Debt Service					
Principal Retirement	137,244		-		(137,244)
Interest and Fiscal Charges	182,355				(182,355)
Total Governmental Activities	\$6,051,634	\$577,564	\$472,103	\$839	(5,001,128)
General Receipts					
Property Taxes Levied for:					
					1,763,797
					196,644
					112,635
					19,345
					960,565
					3,024,325
					13,098
					3,756
					<u>6,094,165</u>
					1,093,037
					<u>4,187,747</u>
					<u><u>\$5,280,784</u></u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in pooled cash and cash equivalents	\$4,533,451	\$747,333	\$5,280,784
Total Assets	<u>\$4,533,451</u>	<u>\$747,333</u>	<u>\$5,280,784</u>
Fund Balances:			
Restricted:			
Debt Service		\$135,444	\$135,444
Capital Improvements		430,045	430,045
Classroom Facilities Maintenance		74,351	74,351
Food Service Operations		80,106	80,106
Special Education		978	978
Target Academic Assistance		2,463	2,463
Extracurricular		21,087	21,087
Other Purposes		100	100
Committed:			
Capital Improvements		2,759	2,759
Assigned:			
Student Instruction	38,633		38,633
Student and Staff Support	15,561		15,561
Unassigned	4,479,257		4,479,257
Total Fund Balances	<u>\$4,533,451</u>	<u>\$747,333</u>	<u>5,280,784</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:			
From Local Sources:			
Property Taxes	\$1,763,797	\$328,624	\$2,092,421
Income Taxes	960,565		960,565
Tuition	376,081		376,081
Transportation Fees	5,893		5,893
Earnings on Investments	12,973	130	13,103
Charges for Services		104,936	104,936
Extracurricular		70,504	70,504
Classroom Materials and Fees	14,981		14,981
Contributions and Donations		1,138	1,138
Other Local Revenue	8,925		8,925
Intergovernmental - State	3,102,486	78,206	3,180,692
Intergovernmental - Federal	23,063	292,369	315,432
Total Receipts	<u>6,268,764</u>	<u>875,907</u>	<u>7,144,671</u>
Cash Disbursements:			
Current:			
Instruction			
Regular	2,594,587	21,761	2,616,348
Special	338,277	175,876	514,153
Vocational	198,859		198,859
Support Services			
Pupil	281,510	1,704	283,214
Instructional Staff	165,739	31,046	196,785
Board of Education	31,223		31,223
Administration	473,034		473,034
Fiscal	205,616	7,229	212,845
Operation and Maintenance	501,379	62,256	563,635
Pupil Transportation	205,509	-	205,509
Central	542		542
Operation of Non-Instructional Services:			
Food Services Operations		178,508	178,508
Extracurricular Activities	165,030	92,350	257,380
Debt Service:			
Principal		137,244	137,244
Interest and Fiscal Charges		182,355	182,355
Total Cash Disbursements	<u>5,161,305</u>	<u>890,329</u>	<u>6,051,634</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>1,107,459</u>	<u>(14,422)</u>	<u>1,093,037</u>
Other Financing Sources (Uses):			
Transfers In		211,835	211,835
Transfers (Out)	(211,835)		(211,835)
Total Other Financing Sources (Uses)	<u>(211,835)</u>	<u>211,835</u>	<u>-</u>
Net Change in Fund Balances	895,624	197,413	1,093,037
Fund Balances at Beginning of Year	<u>3,637,827</u>	<u>549,920</u>	<u>4,187,747</u>
Fund Balances at End of Year	<u><u>4,533,451</u></u>	<u><u>747,333</u></u>	<u><u>5,280,784</u></u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - (BUDGETARY BASIS)**

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Cash Receipts				
From Local Sources:				
Property Taxes	\$1,668,557	\$1,763,797	\$1,763,796	(\$1)
Income Taxes	930,211	960,565	960,565	0
Tuition	379,130	375,000	376,082	1,082
Transportation Fees	(35)	7,000	5,893	(1,107)
Earnings on Investments	5,643	11,350	12,973	1,623
Classroom Materials and Fees	14,627	14,700	14,980	280
Other Local Revenues	4,975	5,000	1,755	(3,245)
Intergovernmental - State	2,658,928	3,064,305	3,102,488	38,183
Intergovernmental - Federal	16,318	16,400	23,063	6,663
Total Budgetary Cash Receipts	<u>5,678,354</u>	<u>6,218,117</u>	<u>6,261,595</u>	<u>43,478</u>
Budgetary Cash Disbursements				
Current:				
Instruction				
Regular	2,764,707	2,668,337	2,642,524	25,813
Special	348,696	343,741	339,866	3,875
Vocational	217,189	216,423	200,494	15,929
Support Services:				
Pupil	263,619	290,529	281,615	8,914
Instructional Staff	165,208	173,343	170,004	3,339
Board of Education	45,410	38,450	31,973	6,477
Administration	482,899	483,903	474,229	9,674
Fiscal	208,562	214,478	210,285	4,193
Operation and Maintenance	508,022	520,840	502,444	18,396
Pupil Transportation	211,967	205,979	205,851	128
Central	1,004	1,000	542	458
Extracurricular Activities	153,100	163,360	159,483	3,877
Total Budgetary Cash Disbursements	<u>5,370,383</u>	<u>5,320,383</u>	<u>5,219,310</u>	<u>101,073</u>
Excess of Budgetary Cash Receipts Over Budgetary Cash Disbursements	<u>307,971</u>	<u>897,734</u>	<u>1,042,285</u>	<u>144,551</u>
Other Financing Sources (Uses)				
Refund of Prior Year's Expenditure		12,528	12,528	
Transfers (out)	(172,053)	(222,053)	(211,835)	10,218
Sale of Capital Assets	2,500	2,500	2,001	(499)
Total Other Financing Sources (Uses)	<u>(169,553)</u>	<u>(207,025)</u>	<u>(197,306)</u>	<u>9,719</u>
Net Change in Fund Balances	138,418	690,709	844,979	154,270
Fund Cash Balance at Beginning of Year	3,602,846	3,602,846	3,602,846	
Prior Year Encumbrances Appropriated	31,432	31,432	31,432	
Fund Cash Balance at End of Year	<u>\$3,772,696</u>	<u>\$4,324,987</u>	<u>\$4,479,257</u>	<u>\$154,270</u>

See accompanying notes to the basic financial statements.

HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUND
JUNE 30, 2016

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$37,559
Total Assets	<u>37,559</u>
Net Position	
Held for Students	37,559
Total Net Position	<u>\$37,559</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Hardin Northern Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under an elected Board of Education (5 members) elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines. The District was established in 1952 and serves an area of approximately eighty-eight miles. It is located in Hardin and Hancock Counties and includes all of Blanchard and Washington Townships and portions of Pleasant, Cessna, Van Buren and Jackson Townships. The District employs 44 certified employees, 19 classified employees and 5 administrators to provide services to 465 students in grades K through 12 and various community groups.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. The following are the Districts more significant accounting policies.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the District:

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO) - WOCO is a jointly governed organization composed of 28 school districts, 3 educational service centers, 3 parochial schools and 4 community schools. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statements Nos. 14 and 61, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Marcia Wierwille, who serves as Treasurer, at 129 East Court Street, Sidney, Ohio 45365.

Apollo Career Center (the Career Center) - The Career Center is a distinct political subdivision of the State of Ohio, which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Treasurer, Apollo Career Center, 3325 Shawnee Road, Lima, Ohio 45806.

Hardin County Schools Consortium Local Professional Development Committee (the Consortium) - The Consortium is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from the Keith Thomas, Treasurer, Midwest Regional Educational Service Center, which serves as fiscal agent, at 121 South Opera Street, Bellefontaine, Ohio 43311.

2. Insurance Pools

CompManagement Workers' Compensation Group Rating (the Group) - The School District participates in the CompManagement Workers' Compensation Group Rating Program, an insurance purchasing pool. The Group's business and affairs are conducted by CompManagement Corporation. Each year the participating districts pay an enrollment fee to the Group to cover the costs of administering the program.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hardin County School Employees' Health and Welfare Benefit Plan and Trust - The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the "Trust") is a public entity shared risk pool consisting of six school districts and the District. The Trust is organized as a Voluntary Employee Benefit association under Section 501(C)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee, which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each school district and the District decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information may be obtained from Rick Combs, who services as Director, 9525 T.R. 50, Dola, Ohio 45835.

3. Related Organization

Hardin Northern Public Library (the Library) - The Library is a distinct subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Hardin Northern Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from Kay Potter, Fiscal Officer, P.O. Box 114, 153 North Main Street, Dunkirk, Ohio 45836.

B. Basis of Presentation

1. Government-wide Financial Statements

The statement of net position – cash basis and the statement of activities – cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

All cash assets and net cash position associated with the operation of the District are included on the statement of net position – cash basis.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

C. Fund Accounting

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. Expendable cash assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following is the District's major governmental fund:

General fund - The general fund is used to account for and report all financial receipts not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

The non-major governmental funds of the District are used to account for (a) financial receipts that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific receipts that are restricted or committed to disbursements for specified purposes other than debt service or capital projects, and (c) financial receipts that are restricted, committed, or assigned to disbursements for principal and interest

2. Proprietary Funds

Proprietary funds are used to account for the ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for cash assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Although Ohio Administrative Code § 117-2-03(B) requires the District's financial report to follow GAAP, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). For the general fund, the difference between disbursements reported in the fund statement disbursements reported in the budgetary statement are due to current year encumbrances being added to disbursements reported on the budgetary statement.

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2016, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and non-negotiable certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposits, are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during year 2016. STAR Ohio is an investment pool managed by the State Treasurer's office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2016.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during year 2016 amounted to \$12,973, which includes \$1,767 assigned from other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

An analysis of the District's deposits and investment at year end is provided in Note 4.

G. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

I. Interfund Balances

On fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the governmental activities column on the statement of net position. The District made no advances in or out during fiscal year 2016.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal and interest payments.

L. Fund Cash Balance

Fund cash balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable - The non-spendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The District had no non-spendable fund cash balances at June 30, 2016.

Restricted - Fund cash balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund cash balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund cash balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund cash balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund cash balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund cash balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund cash balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted receipts first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund cash balance is available. Similarly, within unrestricted fund cash balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund cash balance classifications could be used.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District did not have any restricted cash assets at June 30, 2016.

N. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District did not have any net cash position restricted by enabling legislation at June 30, 2016.

O. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements.

P. 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. Neither type of transaction occurred during fiscal year 2016.

Q. Pensions

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with GAAP. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than GAAP. The accompanying financial statements omit assets, deferred outflows, liabilities, deferred inflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

4. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

4. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

At fiscal year end, the District had \$1,964 in un-deposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$4,878,987. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the District's entire bank balance of \$4,930,405 was covered by the FDIC.

C. Investments

As of June 30, 2016, the District had the following investment and maturity:

Investment	Fair Value	Investment Maturity 6 months or less
STAR Ohio	\$437,392	\$437,392

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase. The District has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. State statute requires that an investment mature within five years from the date of purchase, unless matched to an specific obligation or debt of the District, and that investment must be purchased with the expectation that it will be held to maturity.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not address credit risk beyond the requirements of State statutes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

Investment	Fair Value	% of Total
STAR Ohio	\$437,392	100.00

D. Reconciliation of Cash and Investments to the Statement of Net Position - Cash Basis

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2016:

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

4. DEPOSITS AND INVESTMENTS (Continued)

Cash and investments per note disclosure:	
Carrying amount of deposits	\$4,878,987
Investments	437,392
Cash on hand	1,964
Total	<u>\$5,318,343</u>

Cash and investments per statement of net position:	
Governmental activities	\$5,280,784
Agency fund	37,559
Total	<u>\$5,318,343</u>

5. INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2016, as reported on the fund statements, consist of the following:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Non-major governmental funds	General fund	<u>\$211,835</u>

Transfers are used to move cash receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to disburse them and to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

6. PROPERTY TAXES (Continued)

The District receives property taxes from Hardin and Hancock Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$93,488,930	97.28	\$93,538,310	95.93
Public utility personal	2,610,090	2.72	3,971,670	4.07
Total	<u>\$96,099,020</u>	<u>100.00</u>	<u>\$97,509,980</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.15		\$41.15	

7. INCOME TAX

The District levies a voted tax of 1¾% for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund.

8. LONG-TERM OBLIGATIONS

A. During fiscal year 2016, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/15	Additions	Reductions	Balance Outstanding 06/30/16	Amounts Due in One Year
Governmental activities:					
School improvement bond, 4.46%	\$3,135,000		(\$80,000)	\$3,055,000	\$85,000
Capital lease purchase agreement	765,271		(37,186)	728,085	39,307
Capital lease bus	61,917		(20,058)	41,859	20,633
Total long-term obligations	<u>\$3,962,188</u>	<u>\$0</u>	<u>(\$137,244)</u>	<u>\$3,824,944</u>	<u>\$144,940</u>

On February 22, 2008, the District issued \$3,545,000 in general obligation School Improvement Bonds for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program, together with other improvements to school facilities, equipment, furnishings, site improvement, and all necessary appurtenances. The bonds bear an interest rate of 4.46% and will mature on December 1, 2036.

In July 2009, the District issued a Capital Lease Purchase Agreement with U.S. Bank National Association in the amount of \$950,000 for construction and improvements to school facilities including earth works, paving, landscaping, site improvements, equipment and furnishings. The initial term of the lease is from July 1, 2010 to June 30, 2011 with one year renewal terms until June 1, 2029.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

8. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the District's future annual debt service requirements for long-term obligations:

Fiscal Year Ending June 30,	School Improvement Bonds		Capital Lease Payable		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$85,000	\$134,357	\$39,307	\$40,308	\$124,307	\$174,665
2018	90,000	130,455	41,549	38,178	131,549	168,633
2019	95,000	126,330	43,919	35,808	138,919	162,138
2020	100,000	121,981	46,424	33,393	146,424	155,374
2021	105,000	117,410	49,072	30,655	154,072	148,065
2022 - 2026	610,000	510,225	290,683	108,016	900,683	618,241
2027 - 2031	760,000	357,472	217,131	21,910	977,131	379,382
2032 - 2036	960,000	167,251			960,000	167,251
2037	250,000	5,575			250,000	5,575
Total	<u>\$3,055,000</u>	<u>\$1,671,056</u>	<u>\$728,085</u>	<u>\$308,268</u>	<u>\$3,783,085</u>	<u>\$1,979,324</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that un-voted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that un-voted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$5,856,342 (including available funds of \$135,444) and an un-voted debt margin of \$97,510.

9. LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

In a prior fiscal year, the District entered into a lease purchase agreement for the acquisition of a bus. This lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements.

Principal and interest payments in the 2016 fiscal year totaled \$21,835. This amount is reported as debt service payments of the permanent improvement fund.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the future minimum lease payments as of June 30, 2016:

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

9. LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE (Continued)

Fiscal Year Ending June 30,	Amount
2017	\$21,835
2018	21,835
Total minimum lease payment	43,670
Less: amount representing interest	(1,811)
Present value of minimum lease payments	\$41,859

10. RISK MANAGEMENT

A. Comprehensive

The District 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 fiscal year 2016, the District contracted with the Schools of Ohio Risk Sharing Authority (SORSA) for the following insurance coverage:

Type of Coverage	Coverage
Buildings and contents - replacement cost	\$24,653,426
General Liability:	
Per occurrence	15,000,000
Aggregate	17,000,000
Vehicle Liability	15,000,000
Uninsured Motorist	1,000,000
Public Employees Dishonesty	100,000

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the District has had no significantly reduced coverage in the past year.

B. Workers' Compensation

The District participates in the Comp Management Workers' Compensation Group Rating Program (the "GRP"). Each year, the participants in the GRP pay an enrollment fee to cover the costs of administering the program. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Benefits

The District participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts the Ada Public Library. The District pays monthly premiums to the Trust for medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

11. PENSION PLANS

A. Net Pension Liability

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 net pension liability represents the District’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 District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District 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.

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

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

Age and service requirements for retirement are as follows:

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

11. PENSION PLANS (Continued)

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 District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$77,829 for fiscal year 2016.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

11. PENSION PLANS (Continued)

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

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio 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.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$309,841 for fiscal year 2016.

D. Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District'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:

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportionate share of the net pension liability	\$1,060,615	\$5,756,338	\$6,816,953
Proportion of the net pension liability	0.0185874%	0.0208283%	

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

11. PENSION PLANS (Continued)

E. Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

11. PENSION PLANS (Continued)

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$1,470,691	\$1,060,615	\$715,296

F. Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

G. Actuarial Assumptions - STRS Ohio

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

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

11. PENSION PLANS (Continued)

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$7,995,988	\$5,756,338	\$3,862,380

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

12. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$8,863, \$17,523, and \$8,251, respectively. 100 percent has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System of Ohio

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

12. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$21,604, respectively; 100 percent has been contributed for fiscal year 2014.

13. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of cash receipts, cash disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a cash disbursement, as opposed to assigned or committed fund cash balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Cash Balance	
	General fund
Budget basis	\$844,979
Funds budgeted elsewhere	(378)
Adjustment for encumbrances	51,023
Cash basis	\$895,624

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the public school support fund.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

14. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. Foundation Funding

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

15. OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund cash balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$51,023
Non-major governmental	14,168
Total	<u>\$65,191</u>

16. SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Disbursements and offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

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

16. SET-ASIDES (Continued)

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	
Current year set-aside requirement	\$75,151
Current year offset	<u>(75,151)</u>
Total	<u>\$0</u>
Balance carried forward to fiscal year 2017	<u>\$0</u>
Set-aside balance June 30, 2016	<u>\$0</u>

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The discussion and analysis of the Hardin Northern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net cash position of governmental activities increased \$429,729 which represents an 11.43% increase from 2014.
- General cash receipts accounted for \$5,342,336 or 83.11% of all cash receipts. Program specific cash receipts in the form of charges for services and sales, and grants and contributions accounted for \$1,085,682 or 16.89% of total cash receipts of \$6,428,018.
- The District had \$5,998,289 in cash disbursements related to governmental activities; \$1,085,682 of these expenses was offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,342,336 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$5,543,442 in cash receipts and \$5,098,559 in cash disbursements and other financing uses. During fiscal year 2015, the general fund's fund cash balance increased \$444,883 from a balance of \$3,192,944 to \$3,637,827.

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position - Cash Basis* and *Statement of Activities - Cash Basis* provide information about the activities of the whole District, presenting an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is the only major fund.

Reporting the District as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position - cash basis and statement of activities - cash basis answer the question, "How did we do financially during 2015?" These statements include *net cash position* using the *cash basis of accounting*, which is a basis of accounting other than GAAP. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

These two statements report the District's net cash position and changes in that position on a cash basis. This change in net cash position is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In addition, deferred outflows of resources and deferred inflows of resources are also not presented. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis the governmental activities include District's programs and services including instruction, support services includes operation and maintenance of plant and pupil transportation, extracurricular activities, and food service operations.

The statement of net position - cash basis and statement of activities - cash basis can be found on pages 51-52 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 48. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than GAAP. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

The governmental fund statements can be found on pages 53-54 of this report.

The District's budgetary process accounts for certain transactions on a cash-basis plus encumbrances. The budgetary statement for the general fund is presented to demonstrate the District's compliance with annually adopted budgets. The budgetary statement can be found on page 55 of this report.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statement of fiduciary net position - cash basis on page 56. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance 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 government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 57-80 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other information concerning the District's net pension liability. The other information can be found on pages 81 through 85 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2015 and June 30, 2014.

	Net Cash Position	
	Governmental Activities 2015	Governmental Activities 2014
Assets:		
Equity in pooled cash and cash equivalents	\$4,187,747	\$3,758,018
Total assets	4,187,747	3,758,018
Net Cash Position:		
Restricted	548,000	565,074
Unrestricted	3,639,747	3,192,944
Total net cash position	\$4,187,747	\$3,758,018

The total net cash position of the District increased \$429,729 which represents an 11.43% increase from fiscal year 2014. A portion of the District's net cash position, \$548,000, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$3,639,747 may be used to meet the District's ongoing obligations to the students and creditors.

The table below shows the change in net cash assets for fiscal years 2015 and 2014.

	Change in Net Position	
	Governmental Activities 2015	Governmental Activities 2014
Receipts:		
Program cash receipts:		
Charges for services and sales	\$591,681	\$535,122
Operating grants and contributions	470,782	427,648
Capital grants and contributions	23,219	

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

	Change in Net Position (Continued)	
	Governmental Activities 2015	Governmental Activities 2014
	Receipts: (Continued)	
General cash receipts:		
Property taxes	1,859,837	1,494,688
Income taxes	932,198	1,028,977
Grants and entitlements	2,538,228	2,504,248
Investment earnings	6,868	5,690
Other	5,205	19,595
Total receipts	\$6,428,018	\$6,015,968

Charges for services and sales program cash receipts increased \$56,559 from the prior year. This increase can be attributed to an increase of open enrollment tuition receipts and increases in sport oriented extracurricular activities. Operating grants and contributions cash receipts increased \$43,134 due to increased federal grant cash receipts. Property tax cash receipts increased \$365,149 due to increases in valuation. Income tax receipts decreased \$96,779 from the prior year. Grants and entitlements increased \$33,980 due primarily to increases in school foundation basic allowance.

	Change in Net Cash Position	
	Governmental Activities 2015	Governmental Activities 2014
Cash disbursements:		
Program disbursements:		
Instruction:		
Regular	\$2,646,608	\$2,619,115
Special	485,971	472,631
Vocational	222,407	259,076
Support services:		
Pupil	227,907	235,291
Instructional staff	184,733	160,224
Board of education	34,876	47,487
Administration	455,157	444,020
Fiscal	217,797	209,149
Operations and maintenance	532,506	578,713
Pupil transportation	217,774	200,467
Central	540	502
Operation of non-instructional services:		
Food service operations	162,645	163,720
Extracurricular activities	235,549	207,341
Facilities acquisition and construction	55,763	
Debt service:		
Principal and interest	132,014	103,281
Interest and fiscal charges	186,042	191,172
Total cash disbursements	5,998,289	5,892,189
Change in net cash position	429,729	123,779
Net cash position at beginning of year	3,758,018	3,634,239
Net cash position at end of year	\$4,187,747	\$3,758,018

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

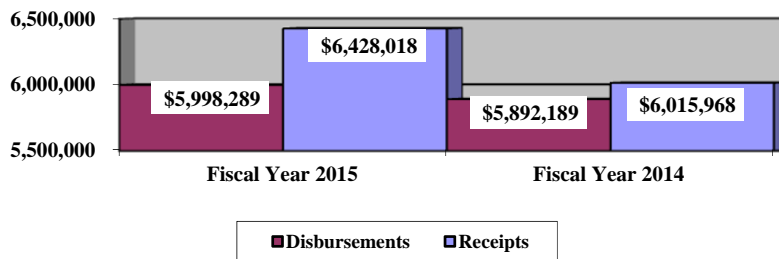
Governmental Activities

Net cash position of the District's governmental activities increased \$429,729. Total governmental cash disbursements of \$5,998,289 were offset by program cash receipts of \$1,085,682 and general cash receipts of \$5,342,336. Program cash receipts supported 18.10% of the total governmental cash disbursements. The largest governmental disbursements were instructional disbursements which totaled \$3,354,986 or 55.93% of total governmental disbursements for fiscal 2015.

The primary sources of receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 82.92% of total governmental receipts.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2015 and 2014.

Governmental Activities - Cash Receipts and Cash Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services, which identifies the cost of these services supported by tax receipts and unrestricted State grants and entitlements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

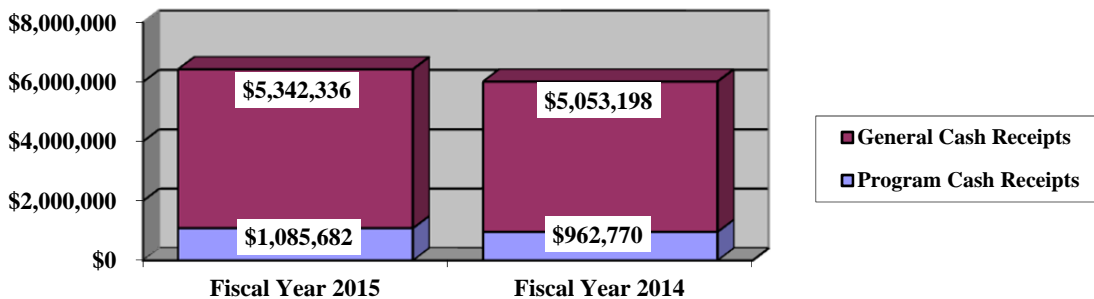
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

Governmental Activities				
	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Cash disbursements:				
Instruction:				
Regular	\$2,646,608	\$2,211,943	\$2,619,115	\$2,215,498
Special	485,971	186,330	472,631	208,030
Vocational	222,407	180,682	259,076	219,218
Support services:				
Pupil	227,907	225,982	235,291	232,974
Instructional staff	184,733	149,810	160,224	129,002
Board of education	34,876	34,876	47,487	47,487
Administration	455,157	455,157	444,020	444,020
Fiscal	217,797	217,797	209,149	209,149
Operations and maintenance	532,506	509,287	578,713	578,713
Pupil transportation	217,774	217,774	200,467	200,467
Central	540	540	502	502
Operation of non-instructional services:				
Food service operations	162,645	(11,132)	163,720	(5,168)
Extracurricular activities	235,549	159,742	207,341	155,074
Facilities acquisition and construction	55,763	55,763		
Debt service:				
Principal retirement	132,014	132,014	103,281	103,281
Interest and fiscal charges	<u>186,042</u>	<u>186,042</u>	<u>191,172</u>	<u>191,172</u>
Total cash disbursements	<u>\$5,998,289</u>	<u>\$4,912,607</u>	<u>\$5,892,189</u>	<u>\$4,929,419</u>

The dependence upon general cash receipts for governmental activities is apparent; with 81.90% of cash disbursements supported through taxes and other general cash receipts during 2015.

The graph below presents the District's governmental activities cash receipts for fiscal years 2015 and 2014.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$4,187,747, which is higher than last year's total cash balance of \$3,758,018. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2015 and June 30, 2014.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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(Continued)**

	Fund Cash Balance June 30, 2015	Fund Cash Balance June 30, 2014	Increase/ Decrease	Percentage Change
General	\$3,637,827	\$3,192,944	\$444,883	13.93 %
Other Governmental	549,920	565,074	(15,154)	(2.68) %
Total	<u>\$4,187,747</u>	<u>\$3,758,018</u>	<u>\$429,729</u>	11.43 %

General Fund

The general fund, the District's largest major fund, had cash receipts of \$5,543,442 in 2015. The cash disbursements and other financing uses of the general fund, totaled \$5,098,559 in 2015. The general fund's cash balance increased \$444,883 or 13.93% from 2014 to 2015.

Overall cash receipts increased \$334,132 or 6.41% during fiscal year 2015. Taxes increased 12.06% due to increased property tax collections as a result of increased assessed values. Earnings on investments increased 20.60% due to increased cash balances to invest over the prior year. Other revenues decreased 31.55% due to a decrease in miscellaneous receipts. All other receipts remained comparable to fiscal year 2014.

Overall cash disbursements (net of transfers) increased \$56,329 or 1.12% during fiscal year 2015. The increase in cash disbursements for extracurricular activities of \$25,585 or 19.71% can be attributed to an increase in academic oriented activities. All other disbursements remained comparable to fiscal year 2014.

The table that follows assists in illustrating the financial activities and fund cash balance of the general fund.

	2015 Amount	2014 Amount	Increase (Decrease)	Percentage Change
Cash receipts:				
Taxes	\$2,470,326	\$2,204,401	\$265,925	12.06 %
Tuition	409,922	386,501	23,421	6.06 %
Earnings on investments	6,837	5,669	1,168	20.60 %
Intergovernmental	2,629,676	2,573,763	55,913	2.17 %
Other revenues	26,681	38,976	(12,295)	(31.55) %
Total	<u>\$5,543,442</u>	<u>\$5,209,310</u>	<u>\$334,132</u>	6.41 %
Cash disbursements:				
Instruction	\$3,142,875	\$3,155,070	(\$12,195)	(0.39) %
Support services	1,773,783	1,730,844	42,939	2.48 %
Extracurricular activities	155,401	129,816	25,585	19.71 %
Total	<u>\$5,072,059</u>	<u>\$5,015,730</u>	<u>\$56,329</u>	1.12 %

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

For the general fund, final budgetary basis receipts and other financing sources of \$5,555,851 were \$320,635 more than the original budget estimates of \$5,235,216. Actual cash receipts and other financing sources of \$5,556,432 were more than final budget estimates by \$581. The final budgetary basis disbursements and other financing uses of \$5,167,760 were \$23,573 more than the original budget estimates of \$5,144,187. The actual budgetary basis disbursements and other financing uses of \$5,141,544 were \$26,216 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2015, the District had \$3,962,188 in school improvement bonds and capital lease obligations. Of the total long term obligations, \$137,244 is due in one year and \$3,824,944 is due in greater than one year. The following table summarizes the long term obligations outstanding at June 30, 2015 and 2014.

Outstanding Debt, at Year End		
	Governmental Activities 2015	Governmental Activities 2014
School improvement bond	\$3,135,000	\$3,210,000
Capital lease obligations	827,188	800,450
Total	\$3,962,188	\$4,010,450

At June 30, 2015 the District had a legal voted debt margin of \$5,646,783 and an un-voted debt margin of \$96,099. See Note 8 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Our District, like most other Districts, continues to face many challenges this year and in the years to come. As the preceding information shows, the District relies heavily upon property taxes, income taxes (1 3/4% continuing), and unrestricted State aid. Locally, the District has very little industry within its boundaries, which makes the property tax and income tax even more vital to the District's operation and existence. The District did have receipts in excess of disbursements in the amount of \$429,729 for fiscal year 2015.

In regards to State funding, our largest area of receipts, the biennial State budget which impacts fiscal year 2016, does indicate increases in our State receipts.

Due to unsettled issues in Ohio public school funding, the District management is required to plan carefully and prudently to provide the resources to meet student needs in the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers, and our creditors and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mr. Wes Potter, Treasurer of Hardin Northern Local School District, 11589 State Route 81, Dola, Ohio, 45835.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,187,747
Total Assets	\$4,187,747
 Net Cash Position	
Restricted for:	
Capital Projects	249,370
Classroom Facilities Maintenance	75,725
Debt Service	132,871
State Funded Programs	715
Federally Funded Programs	3,878
Student Activities	17,629
Food Service Operations	67,812
Unrestricted	3,639,747
Total Net Cash Position	\$4,187,747

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest
Governmental Activities:				
Instruction:				
Regular	\$2,646,608	\$420,441	\$14,224	(\$2,211,943)
Special	485,971	4,951	294,690	(186,330)
Vocational Education	222,407		41,725	(180,682)
Support Services:				
Pupil	227,907		1,925	(225,982)
Instructional Staff	184,733		34,923	(149,810)
Board of Education	34,876			(34,876)
Administration	455,157			(455,157)
Fiscal	217,797			(217,797)
Operation and Maintenance	532,506			(509,287)
Pupil Transportation	217,774			(217,774)
Central	540			(540)
Operation of Non-Instructional Services:				
Food Services Operations	162,645	91,504	82,273	11,132
Extracurricular Activities	235,549	74,785	1,022	(159,742)
Facilities acquisition and construction	55,763			(55,763)
Debt Service				
Principal Retirement	132,014		-	(132,014)
Interest and Fiscal Charges	186,042			(186,042)
Total Governmental Activities	<u>\$5,998,289</u>	<u>\$591,681</u>	<u>\$470,782</u>	<u>\$23,219</u>
				<u>(4,912,607)</u>

General Receipts

Property Taxes Levied for:

General Purposes	1,538,128
Debt Service	193,957
Capital Outlay	108,986
Classroom Facilities Maintenance	18,766
School District Income Taxes	932,198
Grants and Entitlements not Restricted to Specific Programs	2,538,228
Investment Earnings	6,868
Miscellaneous	5,205
Total General Receipts	<u>5,342,336</u>

Change in Net Position 429,729

Net Cash Position - Beginning of Year 3,758,018

Net Cash Position - End of Year \$4,187,747

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in pooled cash and cash equivalents	\$3,637,827	\$549,920	\$4,187,747
Total Assets	<u>\$3,637,827</u>	<u>\$549,920</u>	<u>\$4,187,747</u>
Fund Balances:			
Restricted:			
Debt Service		\$132,871	\$132,871
Capital Improvements		249,370	249,370
Classroom Facilities Maintenance		75,725	75,725
Food Service Operations		67,812	67,812
Special Education		1,962	1,962
Target Academic Assistance		1,616	1,616
Extracurricular		17,629	17,629
Other Purposes		1,015	1,015
Committed:			
Capital Improvements		1,920	1,920
Assigned:			
Student Instruction	25,750		25,750
Student and Staff Support	9,231		9,231
Unassigned	3,602,846		3,602,846
Total Fund Balances	<u>\$3,637,827</u>	<u>\$549,920</u>	<u>4,187,747</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:			
From Local Sources:			
Property Taxes	\$1,538,128	\$321,709	\$1,859,837
Income Taxes	932,198		932,198
Tuition	409,922		409,922
Earnings on Investments	6,837	57	6,894
Charges for Services		91,504	91,504
Extracurricular		68,779	68,779
Classroom Materials and Fees	15,470		15,470
Contributions and Donations		2,916	2,916
Other Local Revenue	11,211		11,211
Intergovernmental - State	2,615,108	102,717	2,717,825
Intergovernmental - Federal	14,568	296,894	311,462
Total Receipts	<u>5,543,442</u>	<u>884,576</u>	<u>6,428,018</u>
Cash Disbursements:			
Current:			
Instruction			
Regular	2,617,009	29,599	2,646,608
Special	303,459	182,512	485,971
Vocational	222,407		222,407
Support Services			
Pupil	225,823	2,084	227,907
Instructional Staff	150,108	34,625	184,733
Board of Education	34,876		34,876
Administration	455,157		455,157
Fiscal	210,473	7,324	217,797
Operation and Maintenance	479,032	53,474	532,506
Pupil Transportation	217,774	-	217,774
Central	540		540
Operation of Non-Instructional Services:			
Food Services Operations		162,645	162,645
Extracurricular Activities	155,401	80,148	235,549
Facilities Acquisition and Construction		55,763	55,763
Debt Service:			
Principal		132,014	132,014
Interest and Fiscal Charges		186,042	186,042
Total Cash Disbursements	<u>5,072,059</u>	<u>926,230</u>	<u>5,998,289</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>471,383</u>	<u>(41,654)</u>	<u>429,729</u>
Other Financing Sources (Uses):			
Transfers In		26,500	26,500
Transfers (Out)	(26,500)		(26,500)
Total Other Financing Sources (Uses)	<u>(26,500)</u>	<u>26,500</u>	<u>-</u>
Net Change in Fund Balances	444,883	(15,154)	429,729
Fund Balances at Beginning of Year	<u>3,192,944</u>	<u>565,074</u>	<u>3,758,018</u>
Fund Balances at End of Year	<u>3,637,827</u>	<u>549,920</u>	<u>4,187,747</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Cash Receipts				
From Local Sources:				
Property Taxes	\$1,195,405	\$1,538,128	\$1,538,128	
Income Taxes	1,030,000	932,198	932,198	
Tuition	387,100	410,100	409,922	(178)
Earnings on Investments	5,000	5,610	6,837	1,227
Classroom Materials and Fees	14,311	14,311	15,470	1,159
Other Local Revenues	5,000	5,000	2,615	(2,385)
Intergovernmental - State	2,582,000	2,612,518	2,615,108	2,590
Intergovernmental - Federal	16,400	16,400	14,568	(1,832)
Total Budgetary Cash Receipts	<u>5,235,216</u>	<u>5,534,265</u>	<u>5,534,846</u>	<u>581</u>
Budgetary Cash Disbursements				
Current:				
Instruction				
Regular	2,613,465	2,661,520	2,661,412	108
Special	323,006	303,938	303,802	136
Vocational	240,172	223,193	222,407	786
Support Services:				
Pupil	252,175	225,948	225,903	45
Instructional Staff	167,773	150,603	150,525	78
Board of Education	40,400	35,079	35,076	3
Administration	439,031	455,678	455,263	415
Fiscal	190,693	211,439	210,785	654
Operations and Maintenance	474,534	495,234	483,190	12,044
Pupil Transportation	199,485	218,862	218,183	679
Central	1,500	550	540	10
Extracurricular Activities	132,900	147,959	147,958	1
Total Budgetary Cash Disbursements	<u>5,075,134</u>	<u>5,130,003</u>	<u>5,115,044</u>	<u>14,959</u>
Excess of Budgetary Cash Receipts Over Budgetary Cash Disbursements	160,082	404,262	419,802	15,540
Other Financing Sources (Uses)				
Refund of Prior Year's Expenditure		18,996	18,996	
Transfers (out)	(69,053)	(37,757)	(26,500)	11,257
Sale of Capital Assets		2,590	2,590	
Total Other Financing Sources (Uses)	<u>(69,053)</u>	<u>(16,171)</u>	<u>(4,914)</u>	<u>11,257</u>
Net Change in Fund Balances	91,029	388,091	414,888	26,797
Fund Cash Balance at Beginning of Year	3,168,158	3,168,158	3,168,158	
Prior Year Encumbrances Appropriated	19,800	19,800	19,800	
Fund Cash Balance at End of Year	<u>\$3,278,987</u>	<u>\$3,576,049</u>	<u>\$3,602,846</u>	<u>\$26,797</u>

See accompanying notes to the basic financial statements.

HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUND
JUNE 30, 2015

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$45,901
Total Assets	<u>45,901</u>
Net Position	
Held for Students	\$45,901
Total Net Position	<u>\$45,901</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Hardin Northern Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under an elected Board of Education (5 members) elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines. The District was established in 1952 and serves an area of approximately eighty-eight miles. It is located in Hardin and Hancock Counties and includes all of Blanchard and Washington Townships and portions of Pleasant, Cessna, Van Buren and Jackson Townships. The District employs 39 certified employees, 14 classified employees and 5 administrators to provide services to 435 students in grades K through 12 and various community groups.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. The following are the Districts more significant accounting policies.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the District:

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO) - The District is a participant in WOCO, which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts.

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 14 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Midwest Regional Educational Service Center). Financial information is available from Marcia Wierwille, who serves as Treasurer, 129 East Court Street, Sidney, Ohio 45265.

Apollo Career Center (the Career Center) - The Career Center is a distinct political subdivision of the State of Ohio, which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Treasurer, Apollo Career Center, 3325 Shawnee Road, Lima, Ohio 45806.

Hardin County Schools Consortium Local Professional Development Committee (the Consortium) - The Consortium is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from Keith Thomas, Treasurer, Midwest Regional Educational Service Center, which serves as fiscal agent, at 1211 West Lima Street, Kenton, Ohio 43326.

2. Insurance Pools

CompManagement Workers' Compensation Group Rating (the Group) - The School District participates in the CompManagement Workers' Compensation Group Rating Program, an insurance purchasing pool. The Group's business and affairs are conducted by CompManagement Corporation. Each year the participating districts pay an enrollment fee to the Group to cover the costs of administering the program.

Hardin County School Employees' Health and Welfare Benefit Plan and Trust - The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the "Trust") is a public entity shared risk pool consisting of six school districts and the District. The Trust is organized as a Voluntary Employee Benefit association under Section 501(C)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee, which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each school district and the District decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information may be obtained from Rick Combs, who services as Director, 9525 T.R. 50, Dola, Ohio 45835.

3. Related Organization

Hardin Northern Public Library (the Library) - The Library is a distinct subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Hardin Northern Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kay Potter, Fiscal Officer, Hardin Northern Public Library, Clerk/Treasurer, P.O. Box 114, 153 North Main Street, Dunkirk, Ohio 45836.

B. Basis of Presentation

1. Government-wide Financial Statements

The statement of net position – cash basis and the statement of activities – cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

All cash assets and net cash position associated with the operation of the District are included on the statement of net position – cash basis.

2. Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. Expendable cash assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following is the District's major governmental fund:

General fund - The general fund is used to account for and report all financial receipts not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

The non-major governmental funds of the District are used to account for (a) financial receipts that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific receipts that are restricted or committed to disbursements for specified purposes other than debt service or capital projects, and (c) financial receipts that are restricted, committed, or assigned to disbursements for principal and interest

2. Proprietary Funds

Proprietary funds are used to account for the ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for cash assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

D. Basis of Accounting

Although Ohio Administrative Code § 117-2-03(B) requires the District's financial report to follow GAAP, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). For the general fund, the difference between disbursements reported in the fund statement disbursements reported in the budgetary statement are due to current year encumbrances being added to disbursements reported on the budgetary statement.

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2015, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and non-negotiable certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposits, are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during year 2015. STAR Ohio is an investment pool managed by the State Treasurer's office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2015.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during year 2015 amounted to \$6,837, which includes \$976 assigned from other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

An analysis of the District's deposits and investment at year end is provided in Note 4.

G. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

I. Interfund Balances

On fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the governmental activities column on the statement of net position. The District made no advances in or out during fiscal year 2015.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

K. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal and interest payments.

L. Fund Cash Balance

Fund cash balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable - The non-spendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The District had no non-spendable fund cash balances at June 30, 2015.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted - Fund cash balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund cash balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund cash balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund cash balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund cash balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund cash balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund cash balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted receipts first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund cash balance is available. Similarly, within unrestricted fund cash balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund cash balance classifications could be used.

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District did not have any restricted cash assets at June 30, 2015.

N. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District did not have any net cash position restricted by enabling legislation at June 30, 2015.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements.

P. 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. Neither type of transaction occurred during fiscal year 2015.

Q. Pensions

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with GAAP. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than GAAP. The accompanying financial statements omit assets, deferred outflows, liabilities, deferred inflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

B. Change in Accounting Principles

For fiscal year 2015, the District has implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*".

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District's pension plan disclosures, as presented in Note 11 to the financial statements, and added other supplementary information which is presented following the notes to basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$1,964 in un-deposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all District deposits was \$3,595,851. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, the District's entire bank balance of \$3,659,796 was covered by the FDIC.

C. Investments

As of June 30, 2015, the District had the following investment and maturity:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	<u>\$635,833</u>	<u>\$635,833</u>

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase. The District has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. State statute requires that an investment mature within five years from the date of purchase, unless matched to an specific obligation or debt of the District, and that investment must be purchased with the expectation that it will be held to maturity.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not address credit risk beyond the requirements of State statutes.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2015:

Investment	Fair Value	% of Total
STAR Ohio	\$635,833	100.00

D. Reconciliation of Cash and Investments to the Statement of Net Position - Cash Basis

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2015:

Cash and investments per note disclosure:

Carrying amount of deposits	\$3,595,851
Investments	635,833
Cash on hand	1,964
Total	\$4,233,648

Cash and investments per statement of net position:

Governmental activities	\$4,187,747
Agency fund	45,901
Total	\$4,233,648

5. INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2015, as reported on the fund statements, consist of the following:

Transfers in	Transfers out	Amount
Non-major governmental funds	General fund	\$26,500

Transfers are used to move cash receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to disburse them and to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Hardin and Hancock Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$62,723,270	96.02	\$93,488,930	97.28
Public utility personal	2,603,030	3.98	2,610,090	2.72
Total	<u>\$65,326,300</u>	<u>100.00</u>	<u>\$96,099,020</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$42.25		\$41.15	

7. INCOME TAX

The District levies a voted tax of 1¾% for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund.

8. LONG-TERM OBLIGATIONS

A. During fiscal year 2015, the following changes occurred in governmental activities long-term obligations:

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. LONG-TERM OBLIGATIONS (Continued)

	Balance Outstanding 06/30/14	Additions	Reductions	Balance Outstanding 06/30/15	Amounts Due in One Year
Governmental activities:					
School improvement bond, 4.46%	\$3,210,000		(\$75,000)	\$3,135,000	\$80,000
Capital lease purchase agreement	800,450		(35,179)	765,271	37,186
Capital lease bus		\$83,752	(21,835)	61,917	20,058
Total long-term obligations	\$4,010,450	\$83,752	(\$132,014)	\$3,962,188	\$137,244

On February 22, 2008, the District issued \$3,545,000 in general obligation School Improvement Bonds for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program, together with other improvements to school facilities, equipment, furnishings, site improvement, and all necessary appurtenances. The bonds bear an interest rate of 4.46% and will mature on December 1, 2036.

In July 2009, the District issued a Capital Lease Purchase Agreement with U.S. Bank National Association in the amount of \$950,000 for construction and improvements to school facilities including earth works, paving, landscaping, site improvements, equipment and furnishings. The initial term of the lease is from July 1, 2010 to June 30, 2011 with one year renewal terms until June 1, 2029.

The following is a summary of the District's future annual debt service requirements for long-term obligations:

Fiscal Year Ending June 30,	School Improvement Bonds		Capital Lease Payable		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$80,000	\$138,038	\$37,186	\$42,656	\$117,186	\$180,694
2017	85,000	134,357	39,307	40,308	124,307	174,665
2018	90,000	130,455	41,549	38,178	131,549	168,633
2019	95,000	126,330	43,919	35,808	138,919	162,138
2020	100,000	121,981	46,424	33,393	146,424	155,374
2021 - 2025	580,000	536,762	274,996	123,701	854,996	660,463
2026 - 2030	730,000	390,699	281,890	36,880	1,011,890	427,579
2031 - 2035	910,000	208,952			910,000	208,952
2036 - 2037	465,000	21,520			465,000	21,520
Total	\$3,135,000	\$1,809,094	\$765,271	\$350,924	\$3,900,271	\$2,160,018

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2015, are a voted debt margin of \$5,646,783 (including available funds of \$132,871) and an unvoted debt margin of \$96,099.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

In the current fiscal year, the District entered into a lease purchase agreement for the acquisition of a bus. This lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements.

Principal and payments in the 2015 fiscal year totaled \$21,835. This amount is reported as debt service payments of the permanent improvement fund.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the future minimum lease payments as of June 30, 2015:

Fiscal Year Ending June 30,	Amount
2016	\$21,835
2017	21,835
2018	21,835
Total minimum lease payment	65,505
Less: amount representing interest	(3,588)
Present value of minimum lease payments	\$61,917

10. RISK MANAGEMENT

A. Comprehensive

The District 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 fiscal year 2015, the District contracted with the Schools of Ohio Risk Sharing Authority (SORSA) for the following insurance coverage:

Type of Coverage	Coverage
Buildings and contents - replacement cost	\$24,169,043
General Liability:	
Per occurrence	15,000,000
Aggregate	17,000,000
Vehicle Liability	15,000,000
Uninsured Motorist	1,000,000
Public Employees Dishonesty	100,000

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the District has had no significantly reduced coverage in the past year.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The District participates in the Comp Management Workers' Compensation Group Rating Program (the "GRP"). Each year, the participants in the GRP pay an enrollment fee to cover the costs of administering the program. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Benefits

The District participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts the Ada Public Library. The District pays monthly premiums to the Trust for medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

11. PENSION PLANS

A. Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PENSION PLANS (Continued)

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.

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$78,341 for fiscal year 2015.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PENSION PLANS (Continued)

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. 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. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PENSION PLANS (Continued)

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.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$306,001 for fiscal year 2015.

D. Net Pension Liability

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District'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:

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportionate share of the net pension liability	\$948,876	\$5,108,496	\$6,057,372
Proportion of the net pension liability	0.018749%	0.02100234%	

E. Actuarial Assumptions - SERS

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PENSION PLANS (Continued)

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

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

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

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PENSION PLANS (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$1,353,764	\$948,876	\$608,330

F. Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PENSION PLANS (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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 Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$7,313,369	\$5,108,496	\$3,243,915

12. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

12. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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 2015, the District's surcharge obligation was \$8,841.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$17,523, \$8,251, and \$8,890, respectively. For fiscal year 2015, 91.312 percent has been contributed. The full amount has been contributed for fiscal years 2014 and 2013.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014 and 2013 were \$21,604 and \$21,294, respectively; 100 percent has been contributed for fiscal years 2014 and 2013.

13. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of cash receipts, cash disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

13. BUDGETARY BASIS OF ACCOUNTING (Continued)

The major differences between the budget basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a cash disbursement, as opposed to assigned or committed fund cash balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Cash Balance	
	General fund
Budget basis	\$414,888
Funds budgeted elsewhere	(1,437)
Adjustment for encumbrances	31,432
Cash basis	\$444,883

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the public school support fund.

14. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

15. OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund cash balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

Fund	Year - End Encumbrances
General	\$31,432
Non-major governmental	23,002
Total	\$54,434

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

16. SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Disbursements and offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	Capital Improvements
Set-aside balance June 30, 2014	
Current year set-aside requirement	75,410
Current year offset	(75,410)
Total	\$0
Balance carried forward to fiscal year 2016	\$0
Set-aside balance June 30, 2015	\$0

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

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

LAST TWO FISCAL YEARS*

	2015	2014
District's proportion of the net pension liability	0.01874900%	0.01874900%
District's proportionate share of the net pension liability	\$ 948,876	\$ 1,114,943
District's covered-employee payroll	\$ 559,579	\$ 544,814
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.57%	204.65%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

* The amounts present each fiscal year were determined as of 6/30 of the previous fiscal year.

Note: Information prior to fiscal year 2014 was unavailable.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

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

LAST TWO FISCAL YEARS*

	2015	2014
District's proportion of the net pension liability	0.02100234%	0.02100234%
District's proportionate share of the net pension liability	\$ 5,108,496	\$ 6,085,207
District's covered-employee payroll	\$ 2,185,721	\$ 2,145,857
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	233.72%	283.58%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

* The amounts present each fiscal year were determined as of 6/30 of the previous fiscal year.

Note: Information prior to fiscal year 2014 was unavailable.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

**SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST TWO FISCAL YEARS

	2015	2014
Contractually required contribution	\$ 78,341	\$ 76,274
Contributions in relation to the contractually required contribution	(78,341)	(76,274)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 559,579	\$ 544,814
Contributions as a percentage of covered-employee payroll	13.18%	13.86%

Note: Information prior to fiscal year 2014 was unavailable.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

**SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

LAST TWO FISCAL YEARS

	2015	2014
Contractually required contribution	\$ 306,001	\$ 300,420
Contributions in relation to the contractually required contribution	(306,001)	(300,420)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 2,185,721	\$ 2,145,857
Contributions as a percentage of covered-employee payroll	14.00%	13.00%

Note: Information prior to fiscal year 2014 was unavailable.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

**NOTES TO SCHEDULES OF OTHER INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

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 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Hardin Northern Local School District
Hardin County
11589 State Route 81
Dola, Ohio 45835

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hardin Northern Local School District, Hardin County, Ohio (the District) as of and for the fiscal years ended June 30, 2016 and June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 20, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2016-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

July 20, 2017

HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2016 AND JUNE 30, 2015

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

FINDING NUMBER 2016-001

Noncompliance Citation

Ohio Rev. Code § 117.38 provides, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires all school districts to file annual financial reports which are prepared using generally accepted accounting principles. The District prepared its financial statements for the fiscal years ended June 30, 2016 and 2015 in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the District should prepare its financial statements according to generally accepted accounting principles.

OFFICIALS' RESPONSE: The cost of reporting in GAAP form exceeds the value of the report in the opinion of the Board of Education.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	<p>Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Failed to file annual financial reports using generally accepted accounting principles. This was first reported for the fiscal year ended June 30, 2013.</p>	<p>Not Corrected. Repeated as Finding 2016-001.</p>	<p>The Board of Education maintains that the cost of reporting in compliance with GAAP is cost prohibitive in relation to the benefit it provides.</p>



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HARDIN NORTHERN LOCAL SCHOOL DISTRICT

HARDIN 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
AUGUST 24, 2017**