



OHIO AUDITOR OF STATE
KEITH FABER



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY
JUNE 30, 2020 AND 2019**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis – June 30, 2020.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Cash Basis – June 30, 2020.....	13
Statement of Activities – Cash Basis – For the Fiscal Year Ended June 30, 2020.....	14
Fund Financial Statements:	
Statement of Assets and Fund Balances - Cash Basis	
Governmental Funds – June 30, 2020	15
Statement of Receipts, Disbursements and Changes in Fund Balances	
Cash Basis - Governmental Funds – For the Fiscal Year Ended June 30, 2020	16
Statement of Receipts, Disbursements and Changes in Fund Balance	
Budget and Actual - Budget Basis - General Fund	
For the Fiscal Year Ended June 30, 2020	17
Notes to the Basic Financial Statements – June 30, 2020	19
Prepared by Management:	
Management's Discussion and Analysis – June 30, 2019.....	53
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Cash Basis – June 30, 2019.....	63
Statement of Activities – Cash Basis – For the Fiscal Year Ended June 30, 2019.....	64
Fund Financial Statements:	
Statement of Assets and Fund Balances - Cash Basis	
Governmental Funds – June 30, 2019	65
Statement of Receipts, Disbursements and Changes in Fund Balances	
Cash Basis - Governmental Funds – For the Fiscal Year Ended June 30, 2019	66
Statement of Receipts, Disbursements and Changes in Fund Balance	
Budget and Actual - Budget Basis - General Fund	
For the Fiscal Year Ended June 30, 2019	67

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY
JUNE 30, 2020 AND 2019**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Statement of Fiduciary Net Position – Cash Basis Agency Fund – June 30, 2019	68
Notes to the Basic Financial Statements – June 30, 2019	69
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	103
Schedule of Findings.....	105
Prepared by Management:	
Summary Schedule of Prior Audit Findings	107

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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, each 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, 2020 and June 30, 2019, 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 such 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, each major fund, and the aggregate remaining fund information of the Hardin Northern Local School District, Hardin County, Ohio, as of June 30, 2020 and June 30, 2019, and the respective changes in cash financial position and budgetary comparison for the General Fund thereof for the 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements for the fiscal year ended June 30, 2020, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

As discussed in Note 14 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to management's discussion & analysis 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 November 4, 2020, 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.



Keith Faber
Auditor of State
Columbus, Ohio

November 4, 2020

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(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, 2020. 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 2020 are as follows:

- In total, net cash position of governmental activities decreased \$216,239 which represents a 3.19% decrease from 2019's restated net cash position.
- General cash receipts accounted for \$9,368,492 or 87.09% of all cash receipts. Program specific cash receipts in the form of charges for services and sales, and grants and contributions accounted for \$1,388,236 or 12.91% of total cash receipts of \$10,756,728.
- The District had \$10,972,967 in cash disbursements related to governmental activities; \$1,388,236 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 \$9,368,492 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$6,869,019 in cash receipts and \$6,709,324 in cash disbursements and other financing uses. During fiscal year 2020, the general fund's fund cash balance increased \$159,695 from a balance of \$5,278,947 to \$5,438,642.
- The permanent improvement fund had \$990,463 in cash receipts and other financing sources and \$1,411,066 in cash disbursements. During fiscal year 2020, the permanent improvement fund cash balance decreased \$420,603 from a balance of \$1,051,381 to \$630,778.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

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 and the permanent improvement fund are the major funds.

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 2020?" 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.

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, operation and maintenance of plant, 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 13-14 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. 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 major governmental funds are the general fund and permanent improvement 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 15-16 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 17 of this report.

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 19-52 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2020 and June 30, 2019. The net cash position at June 30, 2019 has been restated as described in Note 3A.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

	Net Cash Position	
	Governmental	Restated
	Activities	Governmental
	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 6,562,018	\$ 6,778,257
Total assets	<u>6,562,018</u>	<u>6,778,257</u>
<u>Net Cash Position</u>		
Restricted	492,598	413,503
Unrestricted	<u>6,069,420</u>	<u>6,364,754</u>
Total net cash position	<u>\$ 6,562,018</u>	<u>\$ 6,778,257</u>

The total net cash position of the District decreased \$216,239 which represents a 3.19% decrease from fiscal year 2019. A portion of the District's net cash position, \$492,598, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$6,069,420 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 2020 and 2019. The net cash position at June 30, 2019 has been restated as described in Note 3A.

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	<u>2020</u>	<u>2019</u>
<u>Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 726,762	\$ 700,670
Operating grants and contributions	661,474	480,327
Capital grants and contributions	-	69,228
General cash receipts:		
Property taxes	2,209,221	2,120,463
Income taxes	1,082,210	1,026,724
Grants and entitlements	2,953,925	3,073,581
Payments in lieu of taxes	287,646	143,748
Investment earnings	103,354	141,550
Refunding bond proceeds	2,685,000	-
Refunding bond premium	34,475	-
Other	<u>12,661</u>	<u>13,650</u>
Total receipts	<u>10,756,728</u>	<u>7,769,941</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

	Change in Net Cash Position	
	Governmental	Restated
	Activities	Governmental
	<u>2020</u>	<u>2019</u>
<u>Cash disbursements:</u>		
Program disbursements:		
Instruction:		
Regular	\$ 2,940,531	\$ 2,869,551
Special	735,819	715,112
Vocational	199,671	159,768
Support services:		
Pupil	303,392	288,654
Instructional staff	244,355	258,915
Board of education	38,044	30,709
Administration	482,140	461,866
Fiscal	223,385	230,536
Operations and maintenance	1,898,641	793,658
Pupil transportation	267,854	205,690
Central	366	490
Operation of non-instructional services:		
Food service operations	209,261	208,887
Extracurricular activities	338,475	265,009
Facilities acquisition and construction	36,053	3,974
Debt service:		
Principal and interest	146,424	138,919
Interest and fiscal charges	162,683	162,137
Payment to bond escrow agent	<u>2,745,873</u>	<u>-</u>
Total cash disbursements	<u>10,972,967</u>	<u>6,793,875</u>
Change in net cash position	(216,239)	976,066
Net cash position at beginning of year (restated)	<u>6,778,257</u>	<u>N/A</u>
Net cash position at end of year	<u>\$ 6,562,018</u>	<u>\$ 6,778,257</u>

Governmental Activities

Net cash position of the District's governmental activities decreased \$216,239. Total governmental cash disbursements of \$10,972,967 were offset by program cash receipts of \$1,388,236 and general cash receipts of \$9,368,492. Program cash receipts supported 12.65% of the total governmental cash disbursements. The largest governmental disbursements were instructional disbursements which totaled \$3,876,021 or 35.32% of total governmental disbursements for fiscal 2020. Operations and maintenance increased \$1,104,983 or 139.23% due to the District beginning phase II of the athletic complex project during the fiscal year.

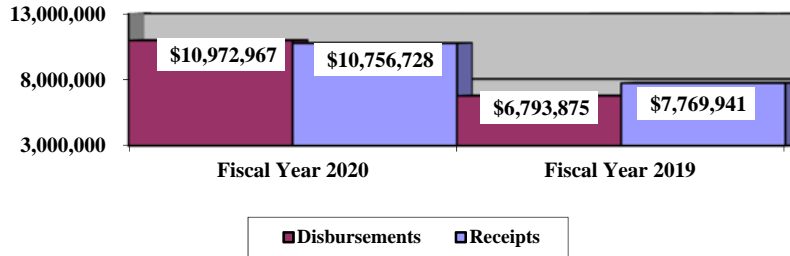
The primary sources of receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 58.06% of total governmental receipts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2020 and 2019.

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 <u>2020</u>	Net Cost of Services <u>2020</u>	Total Cost of Services <u>2019</u>	Net Cost of Services <u>2019</u>
Cash disbursements:				
Instruction:				
Regular	\$ 2,940,531	\$ 2,390,573	\$ 2,869,551	\$ 2,413,153
Special	735,819	372,980	715,112	366,780
Vocational	199,671	167,039	159,768	127,136
Support services:				
Pupil	303,392	293,972	288,654	280,095
Instructional staff	244,355	204,061	258,915	205,261
Board of education	38,044	38,044	30,709	30,709
Administration	482,140	482,140	461,866	461,866
Fiscal	223,385	223,385	230,536	230,536
Operations and maintenance	1,898,641	1,898,641	793,658	722,020
Pupil transportation	267,854	256,781	205,690	205,690
Central	366	366	490	490
Operation of non-instructional services:				
Food service operations	209,261	11,900	208,887	11,431
Extracurricular activities	338,475	153,816	265,009	183,453
Facilities acquisition and construction	36,053	36,053	3,974	3,974
Debt service:				
Principal retirement	146,424	146,424	138,919	138,919
Interest and fiscal charges	162,683	162,683	162,137	162,137
Payment to bond escrow agent	2,745,873	2,745,873	-	-
Total cash disbursements	<u>\$ 10,972,967</u>	<u>\$ 9,584,731</u>	<u>\$ 6,793,875</u>	<u>\$ 5,543,650</u>

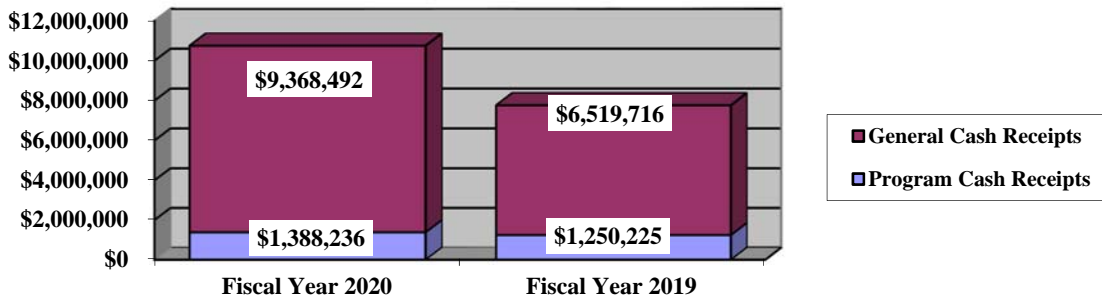
**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

The dependence upon general cash receipts for governmental activities is apparent; with 87.35% of cash disbursements supported through taxes and other general cash receipts during 2020.

The graph below presents the District's governmental activities cash receipts for fiscal years 2020 and 2019.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$6,562,018, which is lower than last year's total restated cash balance of \$6,778,257. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2020 and June 30, 2019.

	Fund Cash Balance June 30, 2020	Restated Fund Cash Balance June 30, 2019	Increase	Percentage Change
General	\$ 5,438,642	\$ 5,278,947	\$ 159,695	3.03 %
Permanent Improvement	630,778	1,051,381	(420,603)	(40.00) %
Other Governmental	492,598	447,929	44,669	9.97 %
Total	<u>\$ 6,562,018</u>	<u>\$ 6,778,257</u>	<u>\$ (216,239)</u>	(3.19) %

General Fund

The general fund, the District's largest major fund, had cash receipts of \$6,869,019 in 2020. The cash disbursements and other financing uses of the general fund, totaled \$6,709,324 in 2020. The general fund's cash balance increased \$159,695 or 3.03% from 2019 to 2020.

Overall cash receipts increased \$87,133 or 1.28% during fiscal year 2020. Property tax receipts increased due to increased collections received by the District. Payments in lieu of taxes increased due to the District receiving a full year of collections on the TIF agreement during the fiscal year. All other receipts remained comparable to fiscal year 2019 or changed an insignificant amount.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)
(Continued)

Overall cash disbursements increased \$142,691 or 2.50% during fiscal year 2020. Instruction disbursements increased mainly due to increased regular instruction disbursements. All other disbursements remained comparable to fiscal year 2019.

In addition, during fiscal year 2020, the general fund made transfers out of \$850,000 and \$10,000, respectively, to the permanent improvement fund and nonmajor governmental funds.

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

	<u>2020</u> <u>Amount</u>	<u>2019</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Cash receipts</u>				
Taxes	\$ 2,938,352	\$ 2,803,224	\$ 135,128	4.82 %
Tuition	466,018	507,640	(41,622)	(8.20) %
Payment in lieu of taxes	287,646	143,748	143,898	100.10 %
Earnings on investments	102,704	140,612	(37,908)	(26.96) %
Intergovernmental	3,057,578	3,165,446	(107,868)	(3.41) %
Other revenues	<u>16,721</u>	<u>21,216</u>	<u>(4,495)</u>	<u>(21.19) %</u>
Total	<u>\$ 6,869,019</u>	<u>\$ 6,781,886</u>	<u>\$ 87,133</u>	1.28 %
<u>Cash disbursements</u>				
Instruction	\$ 3,668,616	\$ 3,569,831	\$ 98,785	2.77 %
Support services	2,009,331	1,955,070	54,261	2.78 %
Extracurricular activities	<u>171,377</u>	<u>181,732</u>	<u>(10,355)</u>	<u>(5.70) %</u>
Total	<u>\$ 5,849,324</u>	<u>\$ 5,706,633</u>	<u>\$ 142,691</u>	2.50 %

Permanent Improvement Fund

The District's permanent improvement fund is reported as a major fund. The permanent improvement fund had \$990,463 in cash receipts and other financing sources and \$1,411,066 in cash disbursements. During fiscal year 2020, the permanent improvement fund cash balance decreased from \$1,051,381 to \$630,778 primarily due to costs associated with the phase II of athletic complex project beginning in fiscal year 2020.

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, 2020
(UNAUDITED)
(Continued)

For the general fund, final budgetary basis receipts and other financing sources of \$6,960,760 were \$12,501 less than the original budget estimates of \$6,973,261. Actual cash receipts and other financing sources of \$6,873,378 were less than final budget estimates by \$87,382. The final budgetary basis disbursements and other financing uses of \$7,370,123 were \$400 more than the original budget estimates of \$7,369,723. The actual budgetary basis disbursements and other financing uses of \$6,739,557 were \$630,566 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, 2020, the District had \$3,241,886 in refunding school improvement bonds and capital lease obligations. Of the total long-term obligations, \$154,072 is due in one year and \$3,087,814 is due in greater than one year. The following table summarizes the long-term obligations outstanding at June 30, 2020 and 2019.

Outstanding Debt, at Year End

	Governmental Activities <u>2020</u>	Governmental Activities <u>2019</u>
School improvement bond	\$ -	\$ 2,785,000
Refunding School improvement bond	2,685,000	-
Capital lease obligations	<u>556,886</u>	<u>603,310</u>
Total	<u>\$ 3,241,886</u>	<u>\$ 3,388,310</u>

At June 30, 2020, the District had a legal voted debt margin of \$5,456,727, and an unvoted debt margin of \$88,979. 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

(Continued)

In regard to State funding, our largest area of receipts, the biennial State budget which impacts fiscal year 2020, does indicate increases in our State receipts. However, due to the current pandemic, reductions were made in state funding that are anticipated to continue for fiscal year 2021.

The District is not yet complete with the planned phase II of the athletic facilities upgrades. Phase II includes the addition of a new 8 lane all- weather track with bleachers. A building housing restrooms and concession stand are also included in the 2nd phase that is scheduled for completion in the Fall of 2020. The funding for this project will be transferred from the general fund to the permanent improvement fund, giving the reader an explanation of increased expenditures in the transfer line item.

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, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2020

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	<u><u>\$ 6,562,018</u></u>
 Net position:	
Restricted for:	
Capital projects	\$ 40,546
Classroom facilities maintenance	44,903
Debt service.	133,601
State funded programs.	111,348
Federally funded programs	5,136
Extracurricular	89,384
Food service operations	67,680
Unrestricted	<u>6,069,420</u>
Total net position.	<u><u>\$ 6,562,018</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 2,940,531	\$ 417,051	\$ 132,907	\$ (2,390,573)
Special	735,819	49,461	313,378	(372,980)
Vocational	199,671	-	32,632	(167,039)
Support services:				
Pupil	303,392	-	9,420	(293,972)
Instructional staff	244,355	-	40,294	(204,061)
Board of education	38,044	-	-	(38,044)
Administration	482,140	-	-	(482,140)
Fiscal	223,385	-	-	(223,385)
Operations and maintenance	1,898,641	-	-	(1,898,641)
Pupil transportation	267,854	1,157	9,916	(256,781)
Central	366	-	-	(366)
Operation of non-instructional services:				
Food service operations	209,261	81,830	115,531	(11,900)
Extracurricular activities	338,475	177,263	7,396	(153,816)
Facilities acquisition and construction	36,053	-	-	(36,053)
Debt service:				
Principal retirement	146,424	-	-	(146,424)
Interest and fiscal charges	162,683	-	-	(162,683)
Payment to bond escrow agent	2,745,873	-	-	(2,745,873)
Total governmental activities	<u>\$ 10,972,967</u>	<u>\$ 726,762</u>	<u>\$ 661,474</u>	<u>(9,584,731)</u>

General receipts:

Property taxes levied for:	
General purposes	1,856,142
Debt service	206,278
Capital outlay	125,507
Classroom facilities maintenance	21,294
Payments in lieu of taxes	287,646
School district income taxes	1,082,210
Grants and entitlements not restricted	
to specific programs	2,953,925
Investment earnings	103,354
Miscellaneous	12,661
Refunding bond proceeds	2,685,000
Refunding bond premium	34,475
Total general receipts	<u>9,368,492</u>
Change in net position	(216,239)
Net position at	
beginning of year (restated)	<u>6,778,257</u>
Net position at end of year	<u><u>\$ 6,562,018</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents . . .	\$ 5,438,642	\$ 630,778	\$ 492,598	\$ 6,562,018
Fund balances:				
Restricted:				
Debt service	\$ -	\$ -	\$ 133,601	\$ 133,601
Capital improvements	-	-	40,546	40,546
Classroom facilities maintenance	-	-	44,903	44,903
Food service operations	-	-	63,019	63,019
Special education	-	-	1,986	1,986
Targeted academic assistance	-	-	3,150	3,150
Extracurricular	-	-	89,384	89,384
Other purposes	-	-	9,913	9,913
Student wellness and success	-	-	106,096	106,096
Assigned:				
Subsequent Year's Appropriation	637,789	-	-	637,789
Student instruction	9,814	-	-	9,814
Student and staff support	22,261	-	-	22,261
Capital improvements	-	630,778	-	630,778
Unassigned	4,768,778	-	-	4,768,778
Total fund balances	<u>\$ 5,438,642</u>	<u>\$ 630,778</u>	<u>\$ 492,598</u>	<u>\$ 6,562,018</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Receipts:				
From local sources:				
Property taxes	\$ 1,856,142	\$ 125,507	\$ 227,572	\$ 2,209,221
Income taxes	1,082,210	-	-	1,082,210
Payment in lieu of taxes	287,646	-	-	287,646
Tuition	466,018	-	-	466,018
Transportation fees	1,157	-	-	1,157
Earnings on investments	102,704	-	822	103,526
Charges for services	-	-	81,830	81,830
Extracurricular	-	-	174,854	174,854
Classroom materials and fees	494	-	-	494
Contributions and donations	-	-	5,347	5,347
Other local revenues	15,070	-	6,538	21,608
Intergovernmental - state	3,023,233	14,956	161,449	3,199,638
Intergovernmental - federal	34,345	-	369,359	403,704
Total receipts	6,869,019	140,463	1,027,771	8,037,253
Disbursements:				
Current:				
Instruction:				
Regular	2,923,236	-	17,295	2,940,531
Special	545,709	-	190,110	735,819
Vocational	199,671	-	-	199,671
Support services:				
Pupil	294,088	-	9,304	303,392
Instructional staff	202,076	-	42,279	244,355
Board of education	38,044	-	-	38,044
Administration	482,140	-	-	482,140
Fiscal	216,033	2,592	4,760	223,385
Operations and maintenance	508,730	1,328,748	61,163	1,898,641
Pupil transportation	267,854	-	-	267,854
Central	366	-	-	366
Operation of non-instructional services:				
Food service operations	-	-	209,261	209,261
Extracurricular activities	171,377	-	167,098	338,475
Facilities acquisition and construction	-	-	36,053	36,053
Debt service:				
Principal retirement	-	46,424	100,000	146,424
Interest and fiscal charges	-	33,302	95,904	129,206
Bond issuance costs	-	-	33,477	33,477
Total disbursements	5,849,324	1,411,066	966,704	8,227,094
Excess (deficiency) of receipts over (under) disbursements	1,019,695	(1,270,603)	61,067	(189,841)
Other financing sources (uses):				
Refunding bond proceeds	-	-	2,685,000	2,685,000
Transfers in	-	850,000	10,000	860,000
Transfers (out)	(860,000)	-	-	(860,000)
Premium on refunding bond	-	-	34,475	34,475
Payment to bond escrow agent	-	-	(2,745,873)	(2,745,873)
Total other financing sources (uses)	(860,000)	850,000	(16,398)	(26,398)
Net change in fund balances	159,695	(420,603)	44,669	(216,239)
Fund balances at beginning of year (restated)	5,278,947	1,051,381	447,929	6,778,257
Fund balances at end of year	\$ 5,438,642	\$ 630,778	\$ 492,598	\$ 6,562,018

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
From local sources:				
Property taxes	\$ 1,796,500	\$ 1,856,142	\$ 1,856,142	\$ -
Income taxes	1,025,000	1,082,210	1,082,210	-
Payment in lieu of taxes	287,500	287,500	287,646	146
Tuition	448,011	448,011	466,019	18,008
Transportation fees	-	-	1,157	1,157
Earnings on investments	144,000	121,000	102,704	(18,296)
Classroom materials and fees	250	250	494	244
Other local revenues	12,000	12,000	7,816	(4,184)
Intergovernmental - state	3,218,000	3,119,147	3,023,233	(95,914)
Intergovernmental - federal	40,000	32,500	34,345	1,845
Total receipts	6,971,261	6,958,760	6,861,766	(96,994)
Disbursements:				
Current:				
Instruction:				
Regular	3,081,372	3,046,272	2,938,254	108,018
Special	605,518	617,718	547,058	70,660
Vocational	204,858	214,293	199,885	14,408
Support services:				
Pupil	316,113	317,363	294,253	23,110
Instructional staff	212,767	227,917	202,496	25,421
Board of education	67,467	67,727	40,319	27,408
Administration	488,232	490,570	482,387	8,183
Fiscal	213,837	224,207	222,378	1,829
Operations and maintenance	610,095	575,495	514,806	60,689
Pupil transportation	268,452	288,774	269,442	19,332
Central	600	600	366	234
Extracurricular activities	170,359	169,134	167,913	1,221
Facilities acquisition and construction	550,000	250,000	-	250,000
Total disbursements	6,789,670	6,490,070	5,879,557	610,513
Excess of receipts over disbursements	181,591	468,690	982,209	513,519
Other financing sources (uses):				
Refund of prior year's expenditures	-	-	6,767	6,767
Transfers (out)	(580,053)	(880,053)	(860,000)	20,053
Sale of capital assets	2,000	2,000	4,845	2,845
Total other financing sources (uses)	(578,053)	(878,053)	(848,388)	29,665
Net change in fund balance	(396,462)	(409,363)	133,821	543,184
Unencumbered fund balance				
at beginning of year	4,651,346	4,651,346	4,651,346	-
Prior year encumbrances appropriated	621,400	621,400	621,400	-
Unencumbered fund balance at end of year	\$ 4,876,284	\$ 4,863,383	\$ 5,406,567	\$ 543,184

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 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, 21 classified employees and 3 administrators to provide services to 412 students in grades K through 12 and various community groups.

NOTE 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, 2020
(Continued)**

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

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

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 Donn Walls, who serves as Director, 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 Apollo Career Center, 3325 Shawnee Road, Lima, Ohio 45806.

Midwest Regional Service Center Educational Local Professional Development Committee

The Midwest Regional Educational Service Center Local Professional Development Committee (LPDC) was established to plan, promote and facilitate effective and efficient professional educator license renewal standards and staff development activities. The LPDC is governed by a nine member Executive Board. Financial information can be obtained from Keith Thomas, Midwest Regional Educational Service Center, 121 South Opera Street, Bellefontaine, OH 43311.

INSURANCE POOLS

CompManagement Workers' Compensation Group Rating (the Group)

The District participates in the CompManagement Workers' Compensation Group Rating Program (the "Group"). Each year, the participants in the Group pay an enrollment fee to cover the costs of administering the program. Participation in the Group is limited to participants that can meet the Group's selection criteria.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

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

Hardin County School Employees' Health 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 the Triad Local School District, and the Ada Public Library. 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 Assured Partners, who services as Director, 9525 T.R. 50, Dola, Ohio, 45835.

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 Hardin Northern Public Library, Fiscal Officer, P.O. Box 114, 153 North Main Street, Dunkirk, Ohio 45836.

B. Basis of Presentation

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 and interest 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

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

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

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 nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type. The District had no fiduciary funds at June 30, 2020.

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.

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 are the District's major governmental funds:

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.

Permanent Improvement fund - The permanent improvement fund is used to account for resources that are restricted for the acquisition, construction or improvement of permanent assets. The fund balance of this fund is restricted for capital improvements.

The nonmajor 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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangements that have certain characteristics. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The District has no fiduciary funds.

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 custodial 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 object.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

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

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 2020, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2020 amounted to \$102,704, which includes \$19,543 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

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

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 2020.

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:

Nonspendable - The nonspendable 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 nonspendable fund cash balances at June 30, 2020.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

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

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, 2020.

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, 2020.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 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 2020.

Q. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Fund Balances/Restatement of Net Position

For fiscal year 2020, the District has implemented GASB Statement No. 84 "Fiduciary Activities" and GASB Statement No. 90 "Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61".

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the District will no longer be reporting agency funds. The District reviewed its agency funds and determined certain funds do not meet the new fiduciary criteria and will be reclassified to governmental funds. These fund reclassifications resulted in the restatement of the District's financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 90 improves consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations. This Statement also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the District.

A fund cash balance restatement is required in order to implement GASB Statement No 84. The June 30, 2019, fund cash balances have been restated as follows:

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Fund cash balance				
previously reported	\$ 5,278,947	\$ 1,051,381	\$ 413,503	\$ 6,743,831
GASB Statement No. 84	-	-	34,426	34,426
Restated fund cash balance				
at June 30, 2019	<u>\$ 5,278,947</u>	<u>\$ 1,051,381</u>	<u>\$ 447,929</u>	<u>\$ 6,778,257</u>

A net cash position restatement is required in order to implement GASB Statement No. 84. The governmental activities at June 30, 2019 have been restated as follows:

	Governmental Activities
Net cash position	
as previously reported	\$ 6,743,831
GASB Statement No. 84	<u>34,426</u>
Restated net cash position	
at June 30, 2019	<u>\$ 6,778,257</u>

Due to the implementation of GASB Statement No. 84, the District will no longer be reporting agency funds. At June 30, 2019, agency funds reported assets and net cash position of \$34,426.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 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, and Government National Mortgage 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 fair 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, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. 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;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Protection of the deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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. Except as noted above, 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 undeposited 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, 2020, the carrying amount of all District deposits was \$149,745. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2020, the District's entire bank balance of \$160,705 was covered by the FDIC.

C. Investments

As of June 30, 2020, the District had the following investment and maturity:

<u>Investment type</u>	<u>NAV</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 6,410,309	\$ 6,410,309

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2020:

<u>Investment type</u>	<u>NAV</u>	<u>% of Total</u>
STAR Ohio	\$ 6,410,309	\$ 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, 2020:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 149,745
Investments	6,410,309
Cash on hand	<u>1,964</u>
Total	<u>\$ 6,562,018</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	<u>\$ 6,562,018</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2020, as reported on the fund statements, consist of the following:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Permanent Improvement fund	General fund	\$ 850,000
Nonmajor governmental funds	General fund	10,000
Total		<u>\$ 860,000</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.

NOTE 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 2020 represent the collection of calendar year 2019 taxes. Real property taxes received in calendar year 2020 were levied after April 1, 2019, on the assessed values as of January 1, 2019, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair 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 2020 represent the collection of calendar year 2019 taxes. Public utility real and personal property taxes received in calendar year 2020 became a lien on December 31, 2018, were levied after April 1, 2019, 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, 2020, are available to finance fiscal year 2020 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2020 taxes were collected are:

	2019 Second Half Collections		2020 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 81,905,110	92.68	\$ 81,645,720	91.76
Public utility personal	<u>6,466,290</u>	<u>7.32</u>	<u>7,333,460</u>	<u>8.24</u>
Total	<u>\$ 88,371,400</u>	<u>100.00</u>	<u>\$ 88,979,180</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.55		\$41.45	

NOTE 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.

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2020, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/19</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/20</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
School improvement bond, 4.46%	\$ 2,785,000	\$ -	\$ (2,785,000)	\$ -	\$ -
Refunding school improvement bond 2020, 3.30%	-	2,685,000	-	2,685,000	105,000
Capital lease purchase agreement	<u>603,310</u>	<u>-</u>	<u>(46,424)</u>	<u>556,886</u>	<u>49,072</u>
Total governmental activities	<u>\$ 3,388,310</u>	<u>\$ 2,685,000</u>	<u>\$ (2,831,424)</u>	<u>\$ 3,241,886</u>	<u>\$ 154,072</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. On May 5, 2020, the District refunded the remaining portion of the bonds through the issuance of the Series 2020 Refunding School Improvement bonds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

In May of 2020, the District issued \$2,685,000 in general obligation bonds for the refunding of the 2008 school improvement bonds. This refunding resulted in a bond premium of \$34,475, bond issuance costs of \$33,477 and payments to refunded bond escrow agent of \$2,745,873 and was undertaken to reduce the combined total debt service payments over a seventeen-year period by \$243,921. These current interest bonds have a final maturity of December 1, 2036 and an interest rate of 3.30%. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. Payments of principal and interest are recorded as cash disbursements of the bond retirement fund (a non-major governmental fund).

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,	Refunding		Capital Lease Payable		Totals	
	School Improvement Bonds Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 105,000	\$ 93,272	\$ 49,072	\$ 30,655	\$ 154,072	\$ 123,927
2022	120,000	83,160	51,871	27,856	171,871	111,016
2023	125,000	79,118	54,830	24,898	179,830	104,016
2024	130,000	74,911	57,958	21,828	187,958	96,739
2025	140,000	70,455	61,265	18,464	201,265	88,919
2026 - 2030	745,000	280,747	281,890	36,880	1,026,890	317,627
2031 - 2035	885,000	146,932	-	-	885,000	146,932
2036 - 2037	435,000	14,932	-	-	435,000	14,932
Total	<u>\$ 2,685,000</u>	<u>\$ 843,527</u>	<u>\$ 556,886</u>	<u>\$ 160,581</u>	<u>\$ 3,241,886</u>	<u>\$ 1,004,108</u>

A. 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, 2020, are a voted debt margin of \$5,456,727 (including available funds of \$133,601) and an un-voted debt margin of \$88,979.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 9 - 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 2020, the District contracted with the Schools of Ohio Risk Sharing Authority (SORSA) for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>
Buildings and contents - replacement cost	\$ 22,665,614
General Liability:	
Per occurrence	15,000,000
Aggregate	17,000,000
Vehicle Liability	15,000,000
Uninsured Motorist	1,000,000
Public Employees Dishonesty	1,000,000

Settled claims have not exceeded commercial coverage in any of the past three years. The District's buildings and contents policy coverage decreased \$3,000,000 from the prior year. The District's remaining policies had no significantly reduced coverage in the past year.

B. Workers' Compensation

The District participates in the CompManagement Workers' Compensation Group Rating Program (the "Group"). Each year, the participants in the Group pay an enrollment fee to cover the costs of administering the program. Participation in the Group is limited to participants that can meet the Group's selection criteria.

C. Employee Health Benefits

The District participates in the Hardin County Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts, the Triad Local School District, and 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.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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. The Ohio Revised Code permits but, does not require, the retirement systems to provide health care to eligible benefit recipients.

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 after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or 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; or 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, 2020
(Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W.

SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% 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% for plan members and 14% 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, 2020, the allocation to pension, death benefits, and Medicare B was 14.0%. For fiscal year 2020, the Retirement Board did not allocate any employer contributions to the Health Card Fund.

The District's contractually required contribution to SERS was \$87,547 for fiscal year 2020.

Plan Description - State Teachers Retirement System (STRS)

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

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% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Benefit recipients base benefit and past cost of living increases are not affected by this change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Eligibility changes for DBP members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age sixty or thirty years of service credit at any age.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$342,294 for fiscal year 2020.

Net Pension Liability

The net pension liability was measured as of June 30, 2019, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01830670%	0.02044934%	
Proportion of the net pension liability current measurement date	<u>0.01917010%</u>	<u>0.02094085%</u>	
Change in proportionate share	<u>0.00086340%</u>	<u>0.00049151%</u>	
Proportionate share of the net pension liability	\$ 1,146,981	\$ 4,630,943	\$ 5,777,924

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, 2019, are presented below:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

For 2019, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50%). 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, 2020
(Continued)

NOTE 10 - DEFINED BENEFIT 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 7.50%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 1,607,330	\$ 1,146,981	\$ 760,920

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below:

	July 1, 2019
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.00%

For the July 1, 2020, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

NOTE 11 - DEFINED BENEFIT OPEB PLANS

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 7.45%, 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 (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 6,767,607	\$ 4,630,943	\$ 2,822,147

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability/Asset

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)**

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program.

Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to post-employment health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the District's surcharge obligation was \$9,213.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$9,213 for fiscal year 2020.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org 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, 2020
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2019, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/asset was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01840750%	0.02044934%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.01923190%</u>	<u>0.02094085%</u>	
Change in proportionate share	<u>0.00082440%</u>	<u>0.00049151%</u>	
Proportionate share of the net OPEB liability	\$ 483,642	\$ -	\$ 483,642
Proportionate share of the net OPEB asset	\$ -	\$ 346,831	\$ 346,831

Actuarial Assumptions - SERS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB 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 OPEB liability in the latest actuarial valuation date of June 30, 2019 are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.13%
Prior measurement date	3.62%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.22%
Prior measurement date	3.70%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

were combined to produce the long-term expected rate of return, 7.50%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22% . The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13%, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.62% was used as of June 30, 2018. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
District's proportionate share of the net OPEB liability	\$ 587,049	\$ 483,642	\$ 401,421

	1% Decrease (6.00 % decreasing to 3.75%)	Current Trend Rate (7.00 % decreasing to 4.75%)	1% Increase (8.00 % decreasing to 5.75%)
District's proportionate share of the net OPEB liability	\$ 387,495	\$ 483,642	\$ 611,205

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, compared with July 1, 2018, are presented below:

	July 1, 2019		July 1, 2018	
Inflation	2.50%		2.50%	
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65	
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation	
Payroll increases	3.00%		3.00%	
Cost-of-living adjustments (COLA)	0.00%		0.00%	
Discounted rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
	Initial	Ultimate	Initial	Ultimate
Medical				
Pre-Medicare	5.87%	4.00%	6.00%	4.00%
Medicare	4.93%	4.00%	5.00%	4.00%
Prescription Drug				
Pre-Medicare	7.73%	4.00%	8.00%	4.00%
Medicare	9.62%	4.00%	-5.23%	4.00%

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Actuarial assumptions used in the June 30, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - There were no changes in assumptions since the prior measurement date of June 30, 2018.

Benefit Term Changes Since the Prior Measurement Date - There was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944% to 1.984% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

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

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

* Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2019.

Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	\$ 295,951	\$ 346,831	\$ 389,609

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB asset	\$ 393,290	\$ 346,831	\$ 289,929

NOTE 12 - 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, disbursements and change 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,

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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

	<u>General fund</u>
Budget basis	\$ 133,821
Funds budgeted elsewhere	(1,055)
Adjustment for encumbrances	26,929
Cash basis	\$ 159,695

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.

NOTE 13 - 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 2016-2017 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, 2020 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Continued)

NOTE 14 - COVID-19 PANDEMIC

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the District. The District's investment portfolio and the investments of the pension and other employee benefit plans are subject to increased market volatility, which could result in a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the District's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 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	\$ 26,929
Permanent improvement	204,197
Nonmajor governmental	<u>15,798</u>
Total	<u>\$ 246,924</u>

NOTE 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.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2019	\$ -
Current year set-aside requirement	73,793
Current year offset	<u>(73,793)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2021	<u>\$ -</u>
Set-aside balance June 30, 2020	<u>\$ -</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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, 2019. 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 2019 are as follows:

- In total, net cash position of governmental activities increased \$976,066 which represents a 16.92% increase from 2018.
- General cash receipts accounted for \$6,519,716 or 83.91% of all cash receipts. Program specific cash receipts in the form of charges for services and sales, and grants and contributions accounted for \$1,250,225 or 16.09% of total cash receipts of \$7,769,941.
- The District had \$6,793,875 in cash disbursements related to governmental activities; \$1,250,225 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 \$6,519,716 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$6,781,886 in cash receipts and \$6,276,633 in cash disbursements and other financing uses. During fiscal year 2019, the general fund's fund cash balance increased \$505,253 from a balance of \$4,773,694 to \$5,278,947.
- The permanent improvement fund had \$683,430 in cash receipts and other financing sources and \$281,070 in cash disbursements. During fiscal year 2019, the permanent improvement fund cash balance increased \$402,360 from a balance of \$649,021 to \$1,051,381.

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 and the permanent improvement fund are the major funds.

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 2019?" 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, 2019
(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 which 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 63-64 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 59. 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 major governmental funds are the general fund and permanent improvement 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 65-66 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 67 of this report.

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 68. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)
(Continued)

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 69-101 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2019 and June 30, 2018.

	Net Cash Position	
	Governmental Activities	Governmental Activities
	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 6,743,831	\$ 5,767,765
Total assets	<u>6,743,831</u>	<u>5,767,765</u>
<u>Net Cash Position</u>		
Restricted	413,503	345,050
Unrestricted	<u>6,330,328</u>	<u>5,422,715</u>
Total net cash position	<u>\$ 6,743,831</u>	<u>\$ 5,767,765</u>

The total net cash position of the District increased \$976,066 which represents a 16.92% increase from fiscal year 2018. A portion of the District's net cash position, \$413,503, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$6,330,328 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 2019 and 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)
(Continued)

	Change in Net Assets	
	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>
<u>Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 700,670	\$ 633,830
Operating grants and contributions	480,327	515,201
Capital grants and contributions	69,228	-
General cash receipts:		
Property taxes	2,120,463	2,130,540
Income taxes	1,026,724	949,529
Grants and entitlements	3,073,581	3,072,079
Payments in lieu of taxes	143,748	-
Investment earnings	141,550	73,155
Other	<u>13,650</u>	<u>2,870</u>
Total receipts	<u>7,769,941</u>	<u>7,377,204</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)
(Continued)

	Change in Net Cash Position	
	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>
<u>Cash disbursements:</u>		
Program disbursements:		
Instruction:		
Regular	\$ 2,869,551	\$ 2,805,013
Special	715,112	585,363
Vocational	159,768	156,399
Support services:		
Pupil	288,654	278,720
Instructional staff	258,915	233,716
Board of education	30,709	32,164
Administration	461,866	448,304
Fiscal	230,536	227,413
Operations and maintenance	793,658	1,779,598
Pupil transportation	205,690	269,300
Central	490	506
Operation of non-instructional services:		
Food service operations	208,887	187,739
Extracurricular activities	265,009	274,729
Facilities acquisition and construction	3,974	87,787
Debt service:		
Principal and interest	138,919	152,775
Interest and fiscal charges	<u>162,137</u>	<u>169,242</u>
Total cash disbursements	<u>6,793,875</u>	<u>7,688,768</u>
Change in net cash position	976,066	(311,564)
Net cash position at beginning of year	<u>5,767,765</u>	<u>6,079,329</u>
Net cash position at end of year	<u>\$ 6,743,831</u>	<u>\$ 5,767,765</u>

Governmental Activities

Net cash position of the District's governmental activities increased \$976,066. Total governmental cash disbursements of \$6,793,875 were offset by program cash receipts of \$1,250,225 and general cash receipts of \$6,519,716. Program cash receipts supported 18.40% of the total governmental cash disbursements. The largest governmental disbursements were instructional disbursements which totaled \$3,744,431 or 55.11% of total governmental disbursements for fiscal 2019. Operations and maintenance decreased \$985,940 or 55.40% due to the District completing phase I of the athletic complex project in the previous fiscal year.

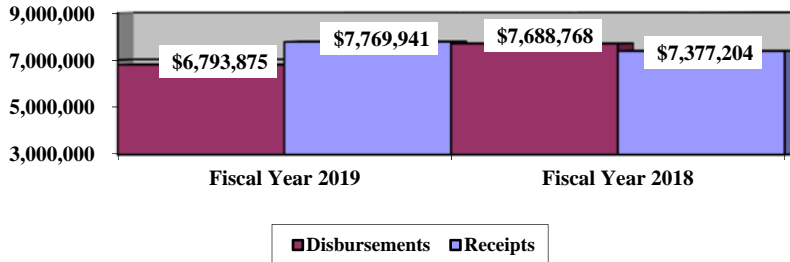
The primary sources of receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 80.06% of total governmental receipts.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2019 and 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2019	2019	2018	2018
Cash disbursements:				
Instruction:				
Regular	\$ 2,869,551	\$ 2,413,153	\$ 2,805,013	\$ 2,340,443
Special	715,112	366,780	585,363	277,682
Vocational	159,768	127,136	156,399	123,767
Support services:				
Pupil	288,654	280,095	278,720	274,358
Instructional staff	258,915	205,261	233,716	183,038
Board of education	30,709	30,709	32,164	32,164
Administration	461,866	461,866	448,304	448,304
Fiscal	230,536	230,536	227,413	227,413
Operations and maintenance	793,658	722,020	1,779,598	1,779,598
Pupil transportation	205,690	205,690	269,300	261,973
Central	490	490	506	506
Operation of non-instructional services:				
Food service operations	208,887	11,431	187,739	(12,946)
Extracurricular activities	265,009	183,453	274,729	193,633
Facilities acquisition and construction	3,974	3,974	87,787	87,787
Debt service:				
Principal retirement	138,919	138,919	152,775	152,775
Interest and fiscal charges	162,137	162,137	169,242	169,242
Total cash disbursements	\$ 6,793,875	\$ 5,543,650	\$ 7,688,768	\$ 6,539,737

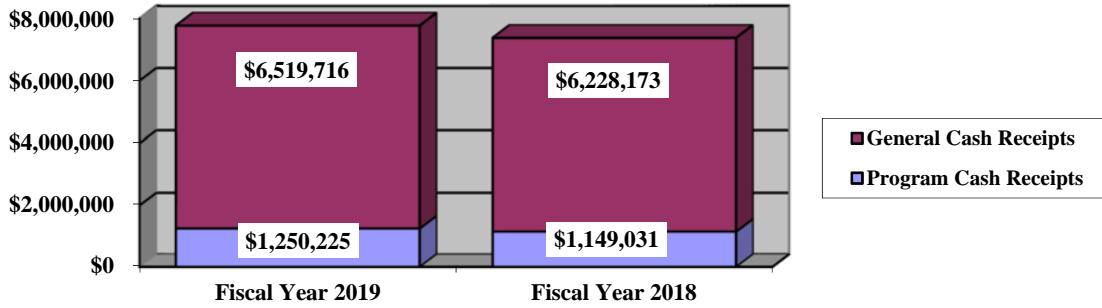
The dependence upon general cash receipts for governmental activities is apparent; with 81.60% of cash disbursements supported through taxes and other general cash receipts during 2019.

The graph below presents the District's governmental activities cash receipts for fiscal years 2019 and 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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 \$6,743,831, which is higher than last year's total cash balance of \$5,767,765. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2019 and June 30, 2018.

	Fund Cash Balance <u>June 30, 2019</u>	Fund Cash Balance <u>June 30, 2018</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 5,278,947	\$ 4,773,694	\$ 505,253	10.58 %
Permanent Improvement	1,051,381	649,021	402,360	61.99 %
Other Governmental	<u>413,503</u>	<u>345,050</u>	<u>68,453</u>	19.84 %
Total	<u>\$ 6,743,831</u>	<u>\$ 5,767,765</u>	<u>\$ 976,066</u>	16.92 %

General Fund

The general fund, the District's largest major fund, had cash receipts of \$6,781,886 in 2019. The cash disbursements and other financing uses of the general fund, totaled \$6,276,633 in 2019. The general fund's cash balance increased \$505,253 or 10.58% from 2018 to 2019.

Overall cash receipts increased \$341,678 or 5.31% during fiscal year 2019. Earnings on investments increased by 93.71% due to better performance by the District's investments. Tuition receipts increased due to increased special education funding. Payments in lieu of taxes increased due to the District entering into a TIF agreement during the fiscal year. Other receipts increased due to increased refunds and reimbursements. All other receipts remained comparable to fiscal year 2019.

Overall cash disbursements increased \$181,008 or 3.28% during fiscal year 2019. Instruction disbursements increased mainly due to increased special instruction disbursements. Facilities acquisition and construction decreased 100.00% due to decreased expenditures for buildings in fiscal year 2018. All other disbursements remained comparable to fiscal year 2018.

In addition, during fiscal year 2019, the general fund made transfers out of \$550,000 and \$20,000, respectively, to the permanent improvement fund and non-major governmental funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)
(Continued)

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

	<u>2019</u> <u>Amount</u>	<u>2018</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Cash receipts</u>				
Taxes	\$ 2,803,224	\$ 2,737,930	\$ 65,294	2.38 %
Tuition	507,640	457,876	49,764	10.87 %
Payment in lieu of taxes	143,748	-	143,748	100.00 %
Earnings on investments	140,612	72,590	68,022	93.71 %
Intergovernmental	3,165,446	3,165,155	291	0.01 %
Other revenues	<u>21,216</u>	<u>6,657</u>	<u>14,559</u>	218.70 %
Total	<u>\$ 6,781,886</u>	<u>\$ 6,440,208</u>	<u>\$ 341,678</u>	5.31 %
<u>Cash disbursements</u>				
Instruction	\$ 3,569,831	\$ 3,339,087	\$ 230,744	6.91 %
Support services	1,955,070	1,925,725	29,345	1.52 %
Extracurricular activities	181,732	173,190	8,542	4.93 %
Facilities acquisition and construction	<u>-</u>	<u>87,623</u>	<u>(87,623)</u>	(100.00) %
Total	<u>\$ 5,706,633</u>	<u>\$ 5,525,625</u>	<u>\$ 181,008</u>	3.28 %

Permanent Improvement Fund

The District's permanent improvement fund is reported as a major fund. The permanent improvement fund had \$683,430 in cash receipts and other financing sources and \$281,070 in cash disbursements. During fiscal year 2019, the permanent improvement fund cash balance increased from \$649,021 to \$1,051,381 primarily due to a \$550,000 transfer in from the general fund.

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 \$6,872,128 were \$298,368 more than the original budget estimates of \$6,573,760. Actual cash receipts and other financing sources of \$6,782,215 were less than final budget estimates by \$89,913. The final budgetary basis disbursements and other financing uses of \$6,925,473 were \$400,287 more than the original budget estimates of \$6,525,186. The actual budgetary basis disbursements and other financing uses of \$6,898,606 were \$26,867 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, 2019, the District had \$3,388,310 in school improvement bonds and capital lease obligations. Of the total long-term obligations, \$146,424 is due in one year and \$3,241,886 is due in greater than one year. The following table summarizes the long-term obligations outstanding at June 30, 2019 and 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)
(Continued)

Outstanding Debt, at Year End

	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>
School improvement bond	\$ 2,785,000	\$ 2,880,000
Capital lease obligations	<u>603,310</u>	<u>647,229</u>
Total	<u>\$ 3,388,310</u>	<u>\$ 3,527,229</u>

At June 30, 2019, the District had a legal voted debt margin of \$5,326,704, and an un-voted debt margin of \$88,371. 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.

In regards to State funding, our largest area of receipts, the biennial State budget which impacts fiscal year 2019, does indicate increases in our State receipts.

The District is not yet complete with the planned phase II of the athletic facilities upgrades. Phase II includes the addition of a new 8 lane all- weather track with bleachers. A building housing restrooms and concession stand are also included in the 2nd phase that is scheduled for completion in the Fall of 2019. The funding for this project will be transferred from the General fund to the Permanent Improvement fund, giving the reader an explanation of increased expenditures in the transfer line item.

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.

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

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2019

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,743,831
 Net position:	
Restricted for:	
Capital projects	\$ 76,584
Classroom facilities maintenance	68,703
Debt service.	158,278
Federally funded programs	5,213
Student activities	29,806
Food service operations	74,919
Unrestricted	6,330,328
Total net position.	\$ 6,743,831

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 2,869,551	\$ 441,074	\$ 15,324	\$ -	\$ (2,413,153)
Special	715,112	67,067	281,265	-	(366,780)
Vocational	159,768	-	32,632	-	(127,136)
Support services:					
Pupil	288,654	-	8,559	-	(280,095)
Instructional staff	258,915	-	53,654	-	(205,261)
Board of education	30,709	-	-	-	(30,709)
Administration	461,866	-	-	-	(461,866)
Fiscal	230,536	-	-	-	(230,536)
Operations and maintenance	793,658	-	2,410	69,228	(722,020)
Pupil transportation	205,690	-	-	-	(205,690)
Central	490	-	-	-	(490)
Operation of non-instructional services:					
Food service operations	208,887	111,732	85,724	-	(11,431)
Extracurricular activities	265,009	80,797	759	-	(183,453)
Facilities acquisition and construction	3,974	-	-	-	(3,974)
Debt service:					
Principal retirement	138,919	-	-	-	(138,919)
Interest and fiscal charges	162,137	-	-	-	(162,137)
Total governmental activities	\$ 6,793,875	\$ 700,670	\$ 480,327	\$ 69,228	(5,543,650)

General receipts:

Property taxes levied for:	
General purposes	1,776,500
Debt service	205,297
Capital outlay	118,464
Classroom facilities maintenance	20,202
Payments in lieu of taxes	143,748
School district income taxes	1,026,724
Grants and entitlements not restricted	
to specific programs	3,073,581
Investment earnings	141,550
Miscellaneous	13,650
Total general receipts	6,519,716
Change in net position	976,066
Net position at beginning of year	5,767,765
Net position at end of year	\$ 6,743,831

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents . . .	\$ 5,278,947	\$ 1,051,381	\$ 413,503	\$ 6,743,831
Fund balances:				
Restricted:				
Debt service	\$ -	\$ -	\$ 158,278	\$ 158,278
Capital improvements	-	-	76,584	76,584
Classroom facilities maintenance	-	-	68,703	68,703
Food service operations	-	-	74,919	74,919
Special education	-	-	383	383
Targeted academic assistance	-	-	3,531	3,531
Extracurricular	-	-	29,806	29,806
Other purposes.	-	-	1,299	1,299
Committed:				
Facilities acquisition and construction	550,000	-	-	550,000
Assigned:				
Subsequent Year's Appropriation	409,363	-	-	409,363
Student instruction	36,625	-	-	36,625
Student and staff support.	40,976	-	-	40,976
Capital improvements	-	1,051,381	-	1,051,381
Unassigned	4,241,983	-	-	4,241,983
Total fund balances	<u>\$ 5,278,947</u>	<u>\$ 1,051,381</u>	<u>\$ 413,503</u>	<u>\$ 6,743,831</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Property taxes	\$ 1,776,500	\$ 118,464	\$ 225,499	\$ 2,120,463
Income taxes	1,026,724	-	-	1,026,724
Payment in lieu of taxes	143,748	-	-	143,748
Tuition	507,640	-	-	507,640
Earnings on investments	140,612	32	959	141,603
Charges for services	-	-	111,732	111,732
Extracurricular	-	-	73,732	73,732
Classroom materials and fees	501	-	-	501
Contributions and donations	-	-	706	706
Other local revenues	20,715	-	-	20,715
Intergovernmental - state	3,122,403	14,934	126,793	3,264,130
Intergovernmental - federal	43,043	-	315,204	358,247
Total receipts	<u>6,781,886</u>	<u>133,430</u>	<u>854,625</u>	<u>7,769,941</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,854,415	-	15,136	2,869,551
Special	555,648	-	159,464	715,112
Vocational	159,768	-	-	159,768
Support services:				
Pupil	280,155	-	8,499	288,654
Instructional staff	207,961	-	50,954	258,915
Board of education	30,709	-	-	30,709
Administration	461,866	-	-	461,866
Fiscal	223,301	2,466	4,769	230,536
Operations and maintenance	544,898	198,878	49,882	793,658
Pupil transportation	205,690	-	-	205,690
Central	490	-	-	490
Operation of non-instructional services:				
Food service operations	-	-	208,887	208,887
Extracurricular activities	181,732	-	83,277	265,009
Facilities acquisition and construction	-	-	3,974	3,974
Debt service:				
Principal retirement	-	43,919	95,000	138,919
Interest and fiscal charges	-	35,807	126,330	162,137
Total disbursements	<u>5,706,633</u>	<u>281,070</u>	<u>806,172</u>	<u>6,793,875</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,075,253</u>	<u>(147,640)</u>	<u>48,453</u>	<u>976,066</u>
Other financing sources (uses):				
Transfers in	-	550,000	20,000	570,000
Transfers (out)	<u>(570,000)</u>	-	-	<u>(570,000)</u>
Total other financing sources (uses)	<u>(570,000)</u>	<u>550,000</u>	<u>20,000</u>	<u>-</u>
Net change in fund balances	505,253	402,360	68,453	976,066
Fund balances at beginning of year	<u>4,773,694</u>	<u>649,021</u>	<u>345,050</u>	<u>5,767,765</u>
Fund balances at end of year	<u>\$ 5,278,947</u>	<u>\$ 1,051,381</u>	<u>\$ 413,503</u>	<u>\$ 6,743,831</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts:				
From local sources:				
Property taxes	\$ 1,745,000	\$ 1,776,500	\$ 1,776,500	\$ -
Income taxes.	963,000	1,026,724	1,026,724	-
Payment in lieu of taxes.	-	143,748	143,748	-
Tuition.	433,690	433,690	507,640	73,950
Transportation fees.	7,750	7,750	-	(7,750)
Earnings on investments	80,000	130,000	140,612	10,612
Classroom materials and fees	320	320	501	181
Other local revenues	166,500	166,500	11,286	(155,214)
Intergovernmental - state	3,147,500	3,149,123	3,122,404	(26,719)
Intergovernmental - federal	29,000	35,409	43,043	7,634
Total receipts	<u>6,572,760</u>	<u>6,869,764</u>	<u>6,772,458</u>	<u>(97,306)</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,722,575	2,898,335	2,898,185	150
Special.	521,979	556,011	555,648	363
Vocational.	150,322	160,758	160,018	740
Support services:				
Pupil.	263,179	281,092	280,155	937
Instructional staff	209,230	224,158	222,726	1,432
Board of education	33,857	37,959	36,041	1,918
Administration.	435,873	465,368	463,988	1,380
Fiscal	214,100	228,709	227,910	799
Operations and maintenance.	516,336	557,731	549,641	8,090
Pupil transportation	196,235	208,994	208,893	101
Central.	460	600	490	110
Extracurricular activities.	164,313	174,978	174,911	67
Facilities acquisition and construction	516,674	550,727	550,000	727
Total disbursements	<u>5,945,133</u>	<u>6,345,420</u>	<u>6,328,606</u>	<u>16,814</u>
Excess of receipts over disbursements	<u>627,627</u>	<u>524,344</u>	<u>443,852</u>	<u>(80,492)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	-	7,393	7,393
Transfers (out).	(580,053)	(580,053)	(570,000)	10,053
Sale of capital assets	1,000	2,364	2,364	-
Total other financing sources (uses)	<u>(579,053)</u>	<u>(577,689)</u>	<u>(560,243)</u>	<u>17,446</u>
Net change in fund balance	48,574	(53,345)	(116,391)	(63,046)
Unencumbered fund balance				
at beginning of year	4,733,657	4,733,657	4,733,657	-
Prior year encumbrances appropriated	34,080	34,080	34,080	-
Unencumbered fund balance at end of year	<u>\$ 4,816,311</u>	<u>\$ 4,714,392</u>	<u>\$ 4,651,346</u>	<u>\$ (63,046)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUND
JUNE 30, 2019

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 34,426</u>
Net position:	
Held on behalf of students	<u>\$ 34,426</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, 2019

NOTE 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, 21 classified employees and 3 administrators to provide services to 407 students in grades K through 12 and various community groups.

NOTE 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, 2019
(Continued)

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

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

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 Donn Walls, who serves as Director, 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 Apollo Career Center, 3325 Shawnee Road, Lima, Ohio 45806.

Midwest Regional Service Center Educational Local Professional Development Committee

The Midwest Regional Educational Service Center Local Professional Development Committee (LPDC) was established to plan, promote and facilitate effective and efficient professional educator license renewal standards and staff development activities. The LPDC is governed by a nine member Executive Board. Financial information can be obtained from Keith Thomas, Midwest Regional Educational Service Center, 121 South Opera Street, Bellefontaine, OH 43311.

INSURANCE POOLS

CompManagement Workers' Compensation Group Rating (the Group)

The District participates in the CompManagement Workers' Compensation Group Rating Program (the "Group"). Each year, the participants in the Group pay an enrollment fee to cover the costs of administering the program. Participation in the Group is limited to participants that can meet the Group's selection criteria.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

Hardin County School Employees' Health 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, the Triad Local School District, and the Ada Public Library. 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.

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 Hardin Northern Public Library, Fiscal Officer, P.O. Box 114, 153 North Main Street, Dunkirk, Ohio 45836.

B. Basis of Presentation

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 and interest 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

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

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.

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 are the District's major governmental funds:

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.

Permanent Improvement fund - The permanent improvement fund is used to account for resources that are restricted for the acquisition, construction or improvement of permanent assets. The fund balance of this fund is restricted for capital improvements.

The nonmajor 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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

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.

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 object.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

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 2019, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$50 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2019 amounted to \$140,612, which includes \$27,506 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

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 2019.

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, 2019.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

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, 2019.

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, 2019.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

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

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 2019.

Q. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2019, the District has implemented GASB Statement No. 83, “Certain Asset Retirement Obligations” and GASB Statement No. 88, “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”.

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the District.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statement 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 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 fair 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, the State Treasury Asset Reserve of Ohio (STAR Ohio);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker’s acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days and two-hundred-seventy days, respectively from the purchase date in an amount not to exceed forty 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.

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, 2019, the carrying amount of all District deposits was \$144,316. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2019, the District’s entire bank balance of \$168,259 was covered by the FDIC.

C. Investments

As of June 30, 2019, the District had the following investment and maturity:

<u>Investment type</u>	<u>NAV</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ <u>6,631,977</u>	\$ <u>6,631,977</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2019:

<u>Investment type</u>	<u>NAV</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 6,631,977</u>	<u>100.00</u>

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, 2019:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 144,316
Investments	6,631,977
Cash on hand	<u>1,964</u>
Total	<u>\$ 6,778,257</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 6,743,831
Agency fund	<u>34,426</u>
Total	<u>\$ 6,778,257</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2019, as reported on the fund statements, consist of the following:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Permanent Improvement fund	General fund	\$ 550,000
Nonmajor governmental fund	General fund	20,000
Total		<u>\$ 570,000</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.

NOTE 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 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair 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 2019 represent the collection of calendar year 2018 taxes. Public utility real and personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018, 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, 2019, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second Half Collections		2019 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 81,805,300	94.99	\$ 81,905,110	92.68
Public utility personal	<u>4,315,650</u>	<u>5.01</u>	<u>6,466,290</u>	<u>7.32</u>
Total	<u>\$ 86,120,950</u>	<u>100.00</u>	<u>\$ 88,371,400</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.55		\$41.55	

NOTE 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.

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2019, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/18</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/19</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
School improvement bond, 4.46%	\$ 2,880,000	\$ -	\$ (95,000)	\$ 2,785,000	\$ 100,000
Capital lease purchase agreement	<u>647,229</u>	<u>-</u>	<u>(43,919)</u>	<u>603,310</u>	<u>46,424</u>
Total long-term obligations	<u>\$ 3,527,229</u>	<u>\$ -</u>	<u>\$ (138,919)</u>	<u>\$ 3,388,310</u>	<u>\$ 146,424</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

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 Year Ending June 30,	School Improvement Bonds		Capital Lease Payable		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
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	110,000	112,615	51,871	27,856	161,871	140,471
2023	115,000	107,598	54,830	24,898	169,830	132,496
2024	120,000	102,357	57,958	21,828	177,958	124,185
2025 - 2029	700,000	422,587	343,155	55,344	1,043,155	477,931
2030 - 2034	870,000	248,647	-	-	870,000	248,647
2035 - 2037	665,000	46,719	-	-	665,000	46,719
Total	<u>\$ 2,785,000</u>	<u>\$ 1,279,914</u>	<u>\$ 603,310</u>	<u>\$ 193,974</u>	<u>\$ 3,388,310</u>	<u>\$ 1,473,888</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 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, 2019, are a voted debt margin of \$5,326,704 (including available funds of \$158,278) and an unvoted debt margin of \$88,371.

NOTE 9 - 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 2019, the District contracted with the Schools of Ohio Risk Sharing Authority (SORSA) for the following insurance coverage:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 9 - RISK MANAGEMENT (Continued)

<u>Type of Coverage</u>	<u>Coverage</u>
Buildings and contents - replacement cost	\$ 25,752,667
General Liability:	
Per occurrence	15,000,000
Aggregate	17,000,000
Vehicle Liability	15,000,000
Uninsured Motorist	1,000,000
Public Employees Dishonesty	1,000,000

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 CompManagement Workers' Compensation Group Rating Program (the "Group"). Each year, the participants in the Group pay an enrollment fee to cover the costs of administering the program. Participation in the Group is limited to participants that can meet the Group's selection criteria.

C. Employee Health Benefits

The District participates in the Hardin County Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts, the Triad Local School District, and 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.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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 after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or 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; or 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 years of service; 2.2% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% 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% for plan members and 14% 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$84,034 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

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% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$341,293 for fiscal year 2019.

Net Pension Liability

The net pension liability was measured as of June 30, 2018, 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</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01900180%	0.02046144%	
Proportion of the net pension liability current measurement date	<u>0.01830670%</u>	<u>0.02044934%</u>	
Change in proportionate share	<u>-0.00069510%</u>	<u>-0.00001210%</u>	
Proportionate share of the net pension liability	\$ 1,048,459	\$ 4,496,351	\$ 5,544,810

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50%). 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 7.50%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 1,476,833	\$ 1,048,459	\$ 689,295

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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 7.45%, 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 (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 6,566,328	\$ 4,496,351	\$ 2,744,396

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$9,273.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$12,385 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/asset was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01904330%	0.02046144%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.01840750%</u>	<u>0.02044934%</u>	
Change in proportionate share	<u>-0.00063580%</u>	<u>-0.00001210%</u>	
Proportionate share of the net OPEB liability	\$ 510,674	\$ -	\$ 510,674
Proportionate share of the net OPEB asset	\$ -	\$ 328,600	\$ 328,600

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%,

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 3.75%) and higher (8.5% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
District's proportionate share of the net OPEB liability	\$ 619,662	\$ 510,674	\$ 424,375
	1% Decrease (6.5 % decreasing to 3.75 %)	Current Trend Rate (7.5 % decreasing to 4.75 %)	1% Increase (8.5 % decreasing to 5.75 %)
District's proportionate share of the net OPEB liability	\$ 412,020	\$ 510,674	\$ 641,309

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

	July 1, 2018		July 1, 2017
	Initial	Ultimate	
Inflation	2.50%		2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation
Payroll increases	3.00%		3.00%
Cost-of-living adjustments (COLA)	0.00%		0.00%, effective July 1, 2017
Discounted rate of return	7.45%		N/A
Blended discount rate of return	N/A		4.13%
Health care cost trends			6 to 11% initial, 4.50% ultimate
Medical			
Pre-Medicare	6.00%	4.00%	
Medicare	5.00%	4.00%	
Prescription Drug			
Pre-Medicare	8.00%	4.00%	
Medicare	-5.23%	4.00%	

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and Bond Buyer 20-year municipal bond of 3.58 percent for the unfunded benefit payments was used to measure the total OPEB liability as of June 30, 2017.

Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	\$ 281,641	\$ 328,600	\$ 368,067

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB asset	\$ 365,839	\$ 328,600	\$ 290,781

NOTE 12 - 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 receipts, disbursements and change in fund balance - budget and actual - budget 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

Budget basis	\$ (116,391)
Funds budgeted elsewhere	244
Adjustment for encumbrances	621,400
Cash basis	\$ 505,253

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, 2019
(Continued)

NOTE 13 - 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 2016-2017 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 finalized the impact of enrollment adjustments to the June 30, 2019 Foundation funding for the District. As a result of the fiscal year 2020 reviews, the District received an additional \$2,027.03 from ODE. This amount has not been included in the financial statements.

NOTE 14 – COVID-19 PANDEMIC

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the District. The District's investment portfolio and the investments of the pension and other employee benefit plans are subject to increased market volatility, which could result in a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the District's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 15 - OTHER COMMITMENTS (Continued)

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 621,400
Permanent improvement	813,379
Nonmajor governmental	<u>49,442</u>
Total	<u>\$ 1,484,221</u>

NOTE 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.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2018	\$ -
Current year set-aside requirement	75,908
Current year offset	<u>(75,908)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2020	<u>\$ -</u>
Set-aside balance June 30, 2019	<u>\$ -</u>

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OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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, each major fund, and the aggregate remaining fund information of the Hardin Northern Local School District, Hardin County, (the District) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2020, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the District.

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 matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2020-001.

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 subject the District's response to the auditing procedures applied in the audit of the financial statements 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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

November 4, 2020

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2020 AND JUNE 30, 2019**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2020-001

Noncompliance Citation

Ohio Rev. Code § 117.38(A) 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 (GAAP). The District prepared its financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that while presumed 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.

Failure to report on a GAAP basis compromises the District’s ability to evaluate and monitor the overall financial condition of the District.

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.

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Hardin Northern Local School

**11589 St. Rt. 81
Dola, Oh 45835**



Mr. Jeff Price, Ed.D.
Superintendent
(419) 759-2331

Mr. Andrew Cano
7-12 Principal
(419) 759-3515

Mr. Brett Halsey
K-6 Principal
(419) 759-3158

Mr. Wesley Potter
Treasurer
(419) 759-2331

**Hardin Northern Local School District
Hardin County
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2020 and June 30, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	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.	Not Corrected	The Board of Education maintains that the cost of reporting in compliance with GAAP is cost prohibitive in relation to the benefit it provides.

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OHIO AUDITOR OF STATE KEITH FABER



HARDIN NORTHERN LOCAL SCHOOL DISTRICT

HARDIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/29/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov