



OHIO AUDITOR OF STATE
KEITH FABER



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY
JUNE 30, 2018 AND 2017**

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY
JUNE 30, 2018 AND 2017**

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OHIO AUDITOR OF STATE KEITH FABER



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 Hardin Northern Local School District, Hardin County, Ohio (the District), as of and for the fiscal years ended June 30, 2018 and 2017, 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.

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www.ohioauditor.gov

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 Hardin Northern Local School District, Hardin County, Ohio, as of June 30, 2018 and 2017, and the respective changes in cash financial position and budgetary comparison for the General Fund thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

We applied no procedures to management's discussion and 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 March 28, 2019, 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

March 28, 2019

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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, 2018. 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 2018 are as follows:

- In total, net cash position of governmental activities decreased \$311,564 which represents a 5.12% decrease from 2017.
- General cash receipts accounted for \$6,228,173 or 84.42% of all cash receipts. Program specific cash receipts in the form of charges for services and sales, and grants and contributions and interest accounted for \$1,149,031 or 15.58% of total cash receipts of \$7,377,204.
- The District had \$7,688,768 in cash disbursements related to governmental activities; \$1,149,031 of these expenses was offset by program specific charges for services and sales, grants, contributions and interest. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,228,173 were not 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 \$6,440,208 in cash receipts and \$6,662,460 in cash disbursements and other financing uses. During fiscal year 2018, the general fund's fund cash balance decreased \$222,252 from a balance of \$4,995,946 to \$4,773,694.
- The permanent improvement fund had \$1,248,714 in cash receipts and other financing sources and \$1,350,792 in cash disbursements. During fiscal year 2018, the permanent improvement fund cash balance decreased \$102,078 from a balance of \$751,099 to \$649,021.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

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 2018?"

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 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 13-14 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 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 only 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

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.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 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, 2018 and June 30, 2017.

	Net Cash Position	
	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 5,767,765	\$ 6,079,329
Total assets	<u>5,767,765</u>	<u>6,079,329</u>
<u>Net Cash Position</u>		
Restricted	345,050	580,876
Unrestricted	<u>5,422,715</u>	<u>5,498,453</u>
Total net cash position	<u><u>\$ 5,767,765</u></u>	<u><u>\$ 6,079,329</u></u>

The total net cash position of the District decreased \$311,564 which represents a 5.12% decrease from fiscal year 2017. A portion of the District's net cash position, \$345,050, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$5,422,715 may be used to meet the District's ongoing obligations to the students and creditors.

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

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

The table below shows the change in net cash assets for fiscal years 2018 and 2017.

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2018</u>	<u>2017</u>
<u>Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 633,830	\$ 676,870
Operating grants and contributions	515,201	476,644
General cash receipts:		
Property taxes	2,130,540	2,134,163
Income taxes	949,529	923,405
Grants and entitlements	3,072,079	3,044,963
Energy loan issuance	-	162,290
Investment earnings	73,155	29,039
Other	<u>2,870</u>	<u>2,350</u>
Total receipts	<u>7,377,204</u>	<u>7,449,724</u>

Loan issuance decreased \$162,290 due to the issuance of an energy conservation loan in fiscal year 2017. Investment earnings increased \$44,116 due to better performance of the District's investments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

	Change in Net Cash Position	
	Governmental Activities	Governmental Activities
	<u>2018</u>	<u>2017</u>
<u>Cash disbursements:</u>		
Program disbursements:		
Instruction:		
Regular	\$ 2,805,013	\$ 2,744,381
Special	585,363	532,445
Vocational	156,399	196,014
Support services:		
Pupil	278,720	247,351
Instructional staff	233,716	204,003
Board of education	32,164	39,891
Administration	448,304	434,487
Fiscal	227,413	228,296
Operations and maintenance	1,779,598	608,051
Pupil transportation	269,300	190,535
Central	506	545
Operation of non-instructional services:		
Food service operations	187,739	192,924
Extracurricular activities	274,729	263,085
Facilities acquisition and construction	87,787	284,037
Debt service:		
Principal and interest	152,775	307,230
Interest and fiscal charges	169,242	177,904
Total cash disbursements	<u>7,688,768</u>	<u>6,651,179</u>
Change in net cash position	(311,564)	798,545
Net cash position at beginning of year	<u>6,079,329</u>	<u>5,280,784</u>
Net cash position at end of year	<u>\$ 5,767,765</u>	<u>\$ 6,079,329</u>

Governmental Activities

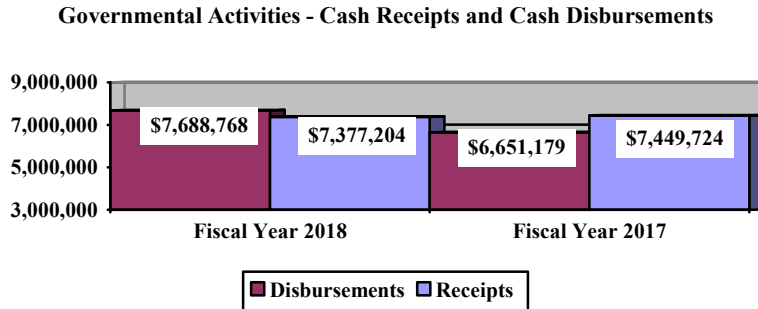
Net cash position of the District's governmental activities decreased \$311,564. Total governmental cash disbursements of \$7,688,768 were offset by program cash receipts of \$1,149,031 and general cash receipts of \$6,228,173. Program cash receipts supported 14.94% of the total governmental cash disbursements. The largest governmental disbursements were instructional disbursements which totaled \$3,546,775 or 46.13% of total governmental disbursements for fiscal 2018.

The primary sources of receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 83.39% of total governmental receipts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2018 and 2017.



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 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Cash disbursements:				
Instruction:				
Regular	\$ 2,805,013	\$ 2,340,443	\$ 2,744,381	\$ 2,267,404
Special	585,363	277,682	532,445	193,606
Vocational	156,399	123,767	196,014	161,996
Support services:				
Pupil	278,720	274,358	247,351	245,521
Instructional staff	233,716	183,038	204,003	173,220
Board of education	32,164	32,164	39,891	39,891
Administration	448,304	448,304	434,487	434,487
Fiscal	227,413	227,413	228,296	228,296
Operations and maintenance	1,779,598	1,779,598	608,051	608,051
Pupil transportation	269,300	261,973	190,535	189,521
Central	506	506	545	545
Operation of non-instructional services:				
Food service operations	187,739	(12,946)	192,924	6,196
Extracurricular activities	274,729	193,633	263,085	179,760
Facilities acquisition and construction	87,787	87,787	284,037	284,037
Debt service:				
Principal retirement	152,775	152,775	307,230	307,230
Interest and fiscal charges	169,242	169,242	177,904	177,904
Total cash disbursements	<u>\$ 7,688,768</u>	<u>\$ 6,539,737</u>	<u>\$ 6,651,179</u>	<u>\$ 5,497,665</u>

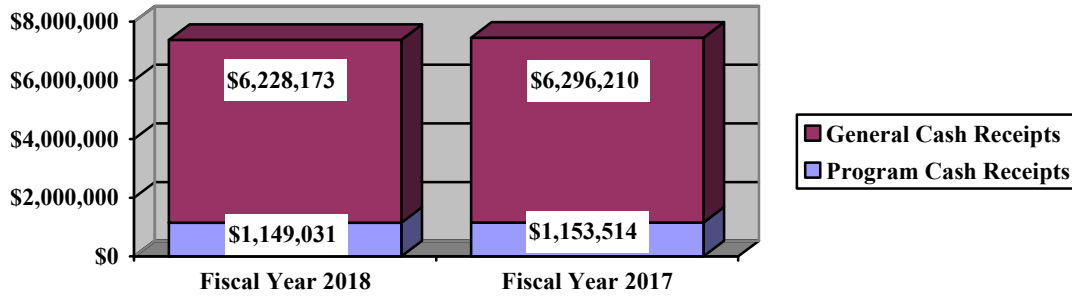
The dependence upon general cash receipts for governmental activities is apparent; with 85.06% of cash disbursements supported through taxes and other general cash receipts during 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

The graph below presents the District's governmental activities cash receipts for fiscal years 2018 and 2017.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$5,767,765, which is lower than last year's total cash balance of \$6,079,329. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2018 and June 30, 2017.

	Fund Cash Balance June 30, 2018	Fund Cash Balance June 30, 2017	Increase	Percentage Change
General	\$ 4,773,694	\$ 4,995,946	\$ (222,252)	(4.45) %
Permanent Improvement	649,021	751,099	(102,078)	(13.59) %
Other Governmental	345,050	332,284	12,766	3.84 %
Total	\$ 5,767,765	\$ 6,079,329	\$ (311,564)	(5.12) %

General Fund

The general fund, the District's largest major fund, had cash receipts of \$6,440,208 in 2018. The cash disbursements and other financing uses of the general fund, totaled \$6,662,460 in 2018. The general fund's cash balance decreased \$222,252 or 4.45% from 2017 to 2018.

Overall cash receipts increased \$25,468 or 0.40% during fiscal year 2018. Earnings on investments increased by 152.57% due to better performance by the District's investments. All other receipts remained comparable to fiscal year 2018.

Overall cash disbursements increased \$79,788 or 1.47% during fiscal year 2018. Facilities acquisition and construction decreased 27.96% due to decreased expenditures for buildings in fiscal year 2017. All other disbursements remained comparable to fiscal year 2017.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

	2018 <u>Amount</u>	2017 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Cash receipts</u>				
Taxes	\$ 2,737,930	\$ 2,723,198	\$ 14,732	0.54 %
Tuition	457,876	489,129	(31,253)	(6.39) %
Transportation fees	-	7,500	(7,500)	(100.00) %
Earnings on investments	72,590	28,740	43,850	152.57 %
Intergovernmental	3,165,155	3,159,546	5,609	0.18 %
Other revenues	<u>6,657</u>	<u>6,627</u>	<u>30</u>	0.45 %
 Total	 <u>\$ 6,440,208</u>	 <u>\$ 6,414,740</u>	 <u>\$ 25,468</u>	 0.40 %
 <u>Cash disbursements</u>				
Instruction	\$ 3,339,087	\$ 3,298,090	\$ 40,997	1.24 %
Support services	1,925,725	1,862,363	63,362	3.40 %
Extracurricular activities	173,190	163,749	9,441	5.77 %
Facilities acquisition and construction	<u>87,623</u>	<u>121,635</u>	<u>(34,012)</u>	(27.96) %
 Total	 <u>\$ 5,525,625</u>	 <u>\$ 5,445,837</u>	 <u>\$ 79,788</u>	 1.47 %

Permanent Improvement Fund

The District's permanent improvement fund is reported as a major fund. The permanent improvement fund had \$1,248,714 in cash receipts and other financing sources and \$1,350,792 in cash disbursements. During fiscal year 2018, the permanent improvement fund cash balance decreased from \$751,099 to \$649,021.

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 \$6,476,166 were \$296,065 more than the original budget estimates of \$6,180,101. Actual cash receipts and other financing sources of \$6,443,642 were less than final budget estimates by \$32,524. The final budgetary basis disbursements and other financing uses of \$6,784,681 were \$301,731 more than the original budget estimates of \$6,482,950. The actual budgetary basis disbursements and other financing uses of \$6,701,496 were \$83,185 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

Debt Administration

At June 30, 2018, the District had \$3,527,229 in school improvement bonds and capital lease obligations. Of the total long-term obligations, \$138,919 is due in one year and \$3,388,310 is due in greater than one year. The following table summarizes the long-term obligations outstanding at June 30, 2018 and 2017.

Outstanding Debt, at Year End

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
School improvement bond	\$ 2,880,000	\$ 2,970,000
Capital lease obligations	<u>647,229</u>	<u>710,004</u>
Total	<u>\$ 3,527,229</u>	<u>\$ 3,680,004</u>

At June 30, 2018, the District had a legal voted debt margin of \$5,019,485, and an unvoted debt margin of \$86,121. 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 2018, does indicate increases in our State receipts.

The District completed phase I of a planned athletic facilities renovation and upgrade by transferring general fund monies to the PI fund. Upgrades included the installation of a new softball facility as well as renovation to the baseball facilities. Infrastructure work for phase II of the athletic facilities project were also completed in anticipation of the installation of a new track complex in FY19 and FY20. This will give the reader an explanation of the deficit spending in FY18.

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, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,767,765
Total Assets	\$5,767,765
 Net Cash Position	
Restricted for:	
Capital Projects	11,309
Classroom Facilities Maintenance	79,280
Debt Service	148,599
State Funded Programs	92
Federally Funded Programs	828
Student Activities	18,592
Food Service Operations	86,350
Unrestricted	5,422,715
Total Net Cash Position	\$5,767,765

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, 2018

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Total
Governmental Activities:				
Instruction:				
Regular	\$2,805,013	\$444,418	\$20,152	(\$2,340,443)
Special	585,363	14,074	293,607	(277,682)
Vocational Education	156,399		32,632	(123,767)
Support Services:				
Pupil	278,720		4,362	(274,358)
Instructional Staff	233,716		50,678	(183,038)
Board of Education	32,164			(32,164)
Administration	448,304			(448,304)
Fiscal	227,413			(227,413)
Operation and Maintenance	1,779,598			(1,779,598)
Pupil Transportation	269,300		7,327	(261,973)
Central	506			(506)
Operation of Non-Instructional Services:				
Food Services Operations	187,739	94,543	106,142	12,946
Extracurricular Activities	274,729	80,795	301	(193,633)
Facilities acquisition and construction	87,787			
Debt Service				
Principal Retirement	152,775		-	(152,775)
Interest and Fiscal Charges	169,242			(169,242)
Total Governmental Activities	\$7,688,768	\$633,830	\$515,201	(6,539,737)
General Receipts				
Property Taxes Levied for:				
General Purposes				1,788,401
Debt Service				204,881
Capital Outlay				117,199
Classroom Facilities Maintenance				20,059
School District Income Taxes				949,529
Grants and Entitlements not Restricted to Specific Programs				3,072,079
Investment Earnings				73,155
Miscellaneous				2,870
Total General Receipts				<u>6,228,173</u>
Change in Net Position				(311,564)
Net Cash Position - Beginning of Year				<u>6,079,329</u>
Net Cash Position - End of Year				<u><u>\$5,767,765</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, 2018

	General Fund	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,773,694	\$649,021	\$345,050	\$5,767,765
Total Assets	\$4,773,694	\$649,021	\$345,050	\$5,767,765
 Fund Balances:				
Restricted:				
Debt Service			\$148,599	\$148,599
Capital Improvements			11,309	11,309
Classroom Facilities Maintenance			79,280	79,280
Food Service Operations			86,350	86,350
Special Education			51	51
Target Academic Assistance			766	766
Extracurricular			18,592	18,592
Other Purposes			103	103
Assigned:				
Capital Improvements		\$649,021		649,021
Student Instruction	\$13,920			13,920
Student and Staff Support	25,390			25,390
Facilities acquisition and construction	727			727
Unassigned	4,733,657			4,733,657
Total Fund Balances	\$4,773,694	\$649,021	\$345,050	\$5,767,765

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
From Local Sources:				
Property Taxes	\$1,788,401	\$117,199	\$224,940	\$2,130,540
Income Taxes	949,529			949,529
Tuition	457,876			457,876
Earnings on Investments	72,590	17	553	73,160
Charges for Services			94,543	94,543
Extracurricular			77,624	77,624
Classroom Materials and Fees	616			616
Contributions and Donations			296	296
Other Local Revenue	6,041			6,041
Intergovernmental - State	3,135,985	14,663	56,423	3,207,071
Intergovernmental - Federal	29,170		350,738	379,908
Total Receipts	<u>6,440,208</u>	<u>131,879</u>	<u>805,117</u>	<u>7,377,204</u>
Cash Disbursements:				
Current:				
Instruction				
Regular	2,779,581		25,432	2,805,013
Special	403,107		182,256	585,363
Vocational	156,399			156,399
Support Services				
Pupil	274,300		4,420	278,720
Instructional Staff	183,092		50,624	233,716
Board of Education	32,164			32,164
Administration	448,304			448,304
Fiscal	220,424	2,297	4,692	227,413
Operation and Maintenance	579,091	1,165,313	35,194	1,779,598
Pupil Transportation	187,844	81,456		269,300
Central	506			506
Operation of Non-Instructional Services:				
Food Services Operations			187,739	187,739
Extracurricular Activities	173,190		101,539	274,729
Facilities acquisition and construction	87,623	164		87,787
Debt Service:				
Principal		62,775	90,000	152,775
Interest and Fiscal Charges		38,787	130,455	169,242
Total Cash Disbursements	<u>5,525,625</u>	<u>1,350,792</u>	<u>812,351</u>	<u>7,688,768</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>914,583</u>	<u>(1,218,913)</u>	<u>(7,234)</u>	<u>(311,564)</u>
Other Financing Sources (Uses):				
Transfers In		1,116,835	20,000	1,136,835
Transfers (Out)	(1,136,835)			(1,136,835)
Total Other Financing Sources (Uses)	<u>(1,136,835)</u>	<u>1,116,835</u>	<u>20,000</u>	<u>-</u>
Net Change in Fund Balances	(222,252)	(102,078)	12,766	(311,564)
Fund Balances at Beginning of Year	<u>4,995,946</u>	<u>751,099</u>	<u>332,284</u>	<u>6,079,329</u>
Fund Balances at End of Year	<u>\$4,773,694</u>	<u>\$649,021</u>	<u>\$345,050</u>	<u>\$5,767,765</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCE - BUDGET AND ACTUAL - (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Cash Receipts				
From Local Sources:				
Property Taxes	\$1,571,255	\$1,789,255	\$1,788,401	(\$854)
Income Taxes	945,000	949,530	949,529	(1)
Tuition	470,402	481,319	457,876	(23,443)
Transportation Fees	7,725	7,725		(7,725)
Earnings on Investments	30,000	58,000	72,590	14,590
Classroom Materials and Fees			616	616
Other Local Revenues	1,500	1,500	1,430	(70)
Intergovernmental - State	3,112,219	3,146,837	3,135,985	(10,852)
Intergovernmental - Federal	28,000	28,000	29,170	1,170
Total Budgetary Cash Receipts	<u>6,166,101</u>	<u>6,462,166</u>	<u>6,435,597</u>	<u>(26,569)</u>
Budgetary Cash Disbursements				
Current:				
Instruction				
Regular	2,941,090	2,804,480	2,798,969	5,511
Special	428,710	407,595	403,522	4,073
Vocational	165,145	164,108	157,120	6,988
Support Services:				
Pupil	288,867	291,787	275,215	16,572
Instructional Staff	180,521	188,497	183,246	5,251
Board of Education	61,999	38,849	32,164	6,685
Administration	472,598	464,926	449,272	15,654
Fiscal	223,760	241,325	234,415	6,910
Operation and Maintenance	619,279	592,407	582,272	10,135
Pupil Transportation	210,521	191,575	188,069	3,506
Central	612	600	506	94
Extracurricular Activities	155,870	172,319	171,541	778
Facilities acquisition and construction	92,143	89,378	88,350	1,028
Total Budgetary Cash Disbursements	<u>5,841,115</u>	<u>5,647,846</u>	<u>5,564,661</u>	<u>83,185</u>
Excess of Budgetary Cash Receipts Over Budgetary Cash Disbursements				
	<u>324,986</u>	<u>814,320</u>	<u>870,936</u>	<u>56,616</u>
Other Financing Sources (Uses)				
Refund of Prior Year's Expenditure	12,000	12,000	6,605	(5,395)
Transfers (out)	(641,835)	(1,136,835)	(1,136,835)	
Sale of Capital Assets	2,000	2,000	1,440	(560)
Total Other Financing Sources (Uses)	<u>(627,835)</u>	<u>(1,122,835)</u>	<u>(1,128,790)</u>	<u>(5,955)</u>
Net Change in Fund Balance	(302,849)	(308,515)	(257,854)	50,661
Fund Cash Balance at Beginning of Year	4,867,115	4,867,115	4,867,115	
Prior Year Encumbrances Appropriated	124,396	124,396	124,396	
Fund Cash Balance at End of Year	<u>\$4,688,662</u>	<u>\$4,682,996</u>	<u>\$4,733,657</u>	<u>\$50,661</u>

See accompanying notes to the basic financial statements. 17

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

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUND
JUNE 30, 2018

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$37,478
Total Assets	<u>37,478</u>
Net Position	
Held for Students	37,478
Total Net Position	<u>\$37,478</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, 2018**

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 47 certified employees, 19 classified employees and 3 administrators to provide services to 446 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, 2018
(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.

Hardin County Schools Consortium Local Professional Development Committee (the Consortium)

The Consortium is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from Keith Thomas, 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, 2018
(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 and the District. The Trust is organized as a Voluntary Employee Benefit association under Section 501(C)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee, which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

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

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.

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

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

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

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

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.

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.

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.

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

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

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

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 and 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 fund and special cost center level.

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

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

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

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

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

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 2018, 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 2018, 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 \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 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 2018 amounted to \$72,590, which includes \$12,645 assigned from other funds.

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

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

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

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

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

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 2018.

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, 2018.

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, 2018
(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, 2018.

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, 2018.

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 2018.

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

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

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

Q. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

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

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements.

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

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

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

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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.

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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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, 2018, the carrying amount of all District deposits was \$212,795. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, the District's entire bank balance of \$242,076 was covered by the FDIC.

C. Investments

As of June 30, 2018, 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>5,590,484</u>	\$ <u>5,590,484</u>

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

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

<u>Investment type</u>	<u>NAV</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 5,590,484</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, 2018:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 212,795
Investments	5,590,484
Cash on hand	<u>1,964</u>
Total	<u>\$ 5,805,243</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 5,767,765
Agency fund	<u>37,478</u>
Total	<u>\$ 5,805,243</u>

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

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

NOTE 5 - INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2018, 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	\$ 1,116,835
Nonmajor governmental fund	General fund	20,000
Total		<u>\$ 1,136,835</u>

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

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

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 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, 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, 2018, are available to finance fiscal year 2018 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, 2018
(Continued)

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 94,312,530	95.90	\$ 81,805,300	94.99
Public utility personal	<u>4,031,970</u>	<u>4.10</u>	<u>4,315,650</u>	<u>5.01</u>
Total	<u>\$ 98,344,500</u>	<u>100.00</u>	<u>\$ 86,120,950</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.15		\$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 2018, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/18</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
School improvement bond, 4.46%	\$ 2,970,000	\$ -	\$ (90,000)	\$ 2,880,000	\$ 95,000
Capital lease purchase agreement	688,778	-	(41,549)	647,229	43,919
Capital lease bus	<u>21,226</u>	<u>-</u>	<u>(21,226)</u>	<u>-</u>	<u>-</u>
Total long-term obligations	<u>\$ 3,680,004</u>	<u>\$ -</u>	<u>\$ (152,775)</u>	<u>\$ 3,527,229</u>	<u>\$ 138,919</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, 2018
(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
2019	\$ 95,000	\$ 126,330	\$ 43,919	\$ 35,808	\$ 138,919	\$ 162,138
2020	100,000	121,981	46,424	33,393	146,424	155,374
2021	105,000	117,410	49,072	30,655	154,072	148,065
2022	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 - 2028	670,000	453,137	324,790	73,927	994,790	527,064
2029 - 2033	830,000	286,558	76,323	3,245	906,323	289,803
2034 - 2037	855,000	80,615	-	-	855,000	80,615
Total	<u>\$ 2,880,000</u>	<u>\$ 1,406,244</u>	<u>\$ 647,229</u>	<u>\$ 229,782</u>	<u>\$ 3,527,229</u>	<u>\$ 1,636,026</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, 2018, are a voted debt margin of \$5,019,485 (including available funds of \$148,599) and an unvoted debt margin of \$86,121.

NOTE 9 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

In a prior fiscal year, the District entered into a lease purchase agreement for the acquisition of a bus. This lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. Principal and interest payments in the 2018 fiscal year totaled \$21,226 which resulted in the debt being paid in full. This amount is reported as debt service payments of the permanent improvement fund.

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

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

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2018, 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	\$ 24,653,426
General Liability:	
Per occurrence	15,000,000
Aggregate	17,000,000
Vehicle Liability	15,000,000
Uninsured Motorist	1,000,000
Public Employees Dishonesty	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 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 11 - 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, 2018
(Continued)

NOTE 11 - 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.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

NOTE 11 - PENSION PLANS - (Continued)

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

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

The District's contractually required contribution to SERS was \$85,394 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

NOTE 11 - PENSION PLANS - (Continued)

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

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

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

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

The District's contractually required contribution to STRS was \$320,309 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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	0.01914040%	0.02075573%	
Proportion of the net pension liability current measurement date	<u>0.01900180%</u>	<u>0.02046144%</u>	
Change in proportionate share	<u>-0.00013860%</u>	<u>-0.00029429%</u>	
Proportionate share of the net pension liability	\$ 1,135,316	\$ 4,860,659	\$ 5,995,975

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 11 - 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
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 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the 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 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
District's proportionate share of the net pension liability	\$ 1,575,523	\$ 1,135,316	\$ 766,552

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

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

NOTE 11 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 11 - PENSION PLANS - (Continued)

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

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

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

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

Sensitivity of the 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 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
District's proportionate share of the net pension liability	\$ 6,967,589	\$ 4,860,659	\$3,085,886

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

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

NOTE 12 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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 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 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. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$9,273.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$12,323 for fiscal year 2018.

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 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability 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	0.02052863%	0.02075573%	
Proportion of the net OPEB liability current measurement date	<u>0.01904330%</u>	<u>0.02046144%</u>	
Change in proportionate share	<u>-0.00148533%</u>	<u>-0.00029429%</u>	
Proportionate share of the net OPEB liability	\$ 511,072	\$ 798,330	\$ 1,309,402

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.

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

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

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

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HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

<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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

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

Sensitivity of the 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 (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

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

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 617,185	\$ 511,072	\$ 427,004

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 414,697	\$ 511,072	\$ 638,627

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

* 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. 10 year annualized geometric nominal returns, which include the real rate of return and inflation 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 actual 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, 2018
(Continued)

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

		Current	
	1% Decrease	Discount Rate	1% Increase
	(3.13%)	(4.13%)	(5.13%)
District's proportionate share			
of the net OPEB liability	\$ 1,071,745	\$ 798,330	\$ 582,243

		Current	
	1% Decrease	Trend Rate	1% Increase
District's proportionate share			
of the net OPEB liability	\$ 554,645	\$ 798,330	\$ 1,119,047

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of cash receipts, 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.

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

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

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

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

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

Net Change in Fund Cash Balance

	<u>General fund</u>
Budget basis	\$ (257,854)
Funds budgeted elsewhere	1,522
Adjustment for encumbrances	<u>34,080</u>
Cash basis	<u>\$ (222,252)</u>

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 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 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, 2018 Foundation funding for the District. As a result of the fiscal year 2019 reviews, the District received an additional \$1,795.36 from ODE. This amount has not been included in the financial statements.

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

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

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	\$ 34,080
Nonmajor governmental	<u>100,177</u>
Total	<u>\$ 134,257</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, 2017	\$ -
Current year set-aside requirement	77,112
Current year offset	<u>(77,112)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2017. 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 2017 are as follows:

- In total, net cash position of governmental activities increased \$798,545 which represents a 15.12% increase from 2016.
- General cash receipts accounted for \$6,296,210 or 84.52% of all cash receipts. Program specific cash receipts in the form of charges for services and sales, and grants and contributions and interest accounted for \$1,153,514 or 15.48% of total cash receipts of \$7,449,724.
- The District had \$6,651,179 in cash disbursements related to governmental activities; \$1,153,514 of these expenses was offset by program specific charges for services and sales, grants, contributions or interest. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,296,210 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 \$6,414,740 in cash receipts and \$5,952,245 in cash disbursements and other financing uses. During fiscal year 2017, the general fund's fund cash balance increased \$462,495 from a balance of \$4,533,451 to \$4,995,496.
- The permanent improvement fund had \$451,286 in cash receipts and other financing sources and \$118,943 in cash disbursements. During fiscal year 2017, the permanent improvement fund cash balance increased \$332,343 from a balance of \$418,756 to \$751,099.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position - Cash Basis* and *Statement of Activities - Cash Basis* provide information about the activities of the whole District, presenting an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund 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 2017?"

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

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 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 only major governmental funds are the general fund and permanent improvement fund.

Governmental Funds

Most 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

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.

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 69-94 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2017 and June 30, 2016.

	Net Cash Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 6,079,329	\$ 5,280,784
Total assets	<u>6,079,329</u>	<u>5,280,784</u>
<u>Net Cash Position</u>		
Restricted	580,876	744,574
Unrestricted	<u>5,498,453</u>	<u>4,536,210</u>
Total net cash position	<u>\$ 6,079,329</u>	<u>\$ 5,280,784</u>

The total net cash position of the District increased \$798,545 which represents a 15.12% increase from fiscal year 2016. A portion of the District's net cash position, \$580,876, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$5,498,453 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The table below shows the change in net cash assets for fiscal years 2017 and 2016.

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2017</u>	<u>2016</u>
<u>Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 676,870	\$ 577,564
Operating grants and contributions	476,644	472,103
Capital grants and contributions	-	839
General cash receipts:		
Property taxes	2,134,163	2,092,421
Income taxes	923,405	960,565
Grants and entitlements	3,044,963	3,024,325
Energy loan issuance	162,290	-
Investment earnings	29,039	13,098
Other	<u>2,350</u>	<u>3,756</u>
Total receipts	<u>7,449,724</u>	<u>7,144,671</u>

Charges for services and sales program cash receipts increased \$99,306 from the prior year. This increase can be attributed to an increase of open enrollment tuition receipts. Property tax cash receipts increased \$41,742 due to increases in valuation. Loan issuance increased \$162,290 due to the issuance of an energy conservation loan.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

	Change in Net Cash Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Cash disbursements:</u>		
Program disbursements:		
Instruction:		
Regular	\$ 2,744,381	\$ 2,616,348
Special	532,445	514,153
Vocational	196,014	198,859
Support services:		
Pupil	247,351	283,214
Instructional staff	204,003	196,785
Board of education	39,891	31,223
Administration	434,487	473,034
Fiscal	228,296	212,845
Operations and maintenance	608,051	563,635
Pupil transportation	190,535	205,509
Central	545	542
Operation of non-instructional services:		
Food service operations	192,924	178,508
Extracurricular activities	263,085	257,380
Facilities acquisition and construction	284,037	-
Debt service:		
Principal and interest	307,230	137,244
Interest and fiscal charges	177,904	182,355
Total cash disbursements	<u>6,651,179</u>	<u>6,051,634</u>
Change in net cash position	798,545	1,093,037
Net cash position at beginning of year	<u>5,280,784</u>	<u>4,187,747</u>
Net cash position at end of year	<u>\$ 6,079,329</u>	<u>\$ 5,280,784</u>

Governmental Activities

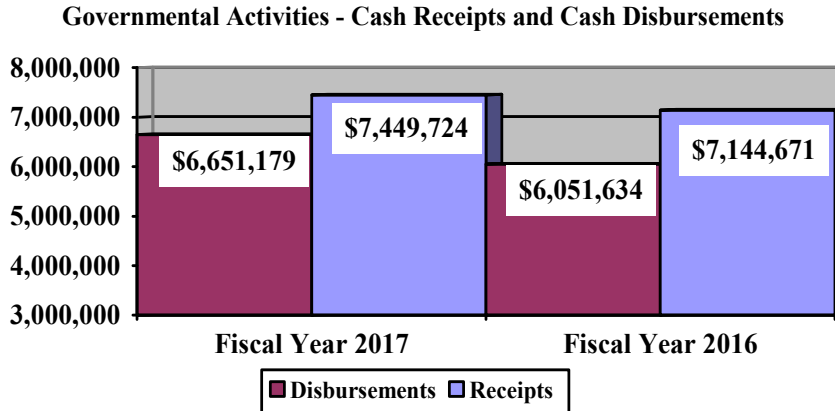
Net cash position of the District's governmental activities increased \$798,545. Total governmental cash disbursements of \$6,651,179 were offset by program cash receipts of \$1,153,514 and general cash receipts of \$6,296,210. Program cash receipts supported 17.34% of the total governmental cash disbursements. The largest governmental disbursements were instructional disbursements which totaled \$3,472,840 or 52.21% of total governmental disbursements for fiscal 2017.

The primary sources of receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 81.92% of total governmental receipts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2017 and 2016.



The statement of activities - cash basis shows the cost of program services and the charges for services and grants and interest 549offsetting 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
	2017	2017	2016	2016
Cash disbursements:				
Instruction:				
Regular	\$ 2,744,381	\$ 2,267,404	\$ 2,616,348	\$ 2,214,404
Special	532,445	193,606	514,153	209,643
Vocational	196,014	161,996	198,859	161,736
Support services:				
Pupil	247,351	245,521	283,214	281,479
Instructional staff	204,003	173,220	196,785	166,043
Board of education	39,891	39,891	31,223	31,223
Administration	434,487	434,487	473,034	473,034
Fiscal	228,296	228,296	212,845	212,845
Operations and maintenance	608,051	608,051	563,635	555,962
Pupil transportation	190,535	189,521	205,509	205,509
Central	545	545	542	542
Operation of non-instructional services:				
Food service operations	192,924	6,196	178,508	(12,294)
Extracurricular activities	263,085	179,760	257,380	181,403
Facilities acquisition and construction	284,037	284,037	-	-
Debt service:				
Principal retirement	307,230	307,230	137,244	137,244
Interest and fiscal charges	177,904	177,904	182,355	182,355
Total cash disbursements	<u>\$ 6,651,179</u>	<u>\$ 5,497,665</u>	<u>\$ 6,051,634</u>	<u>\$ 5,001,128</u>

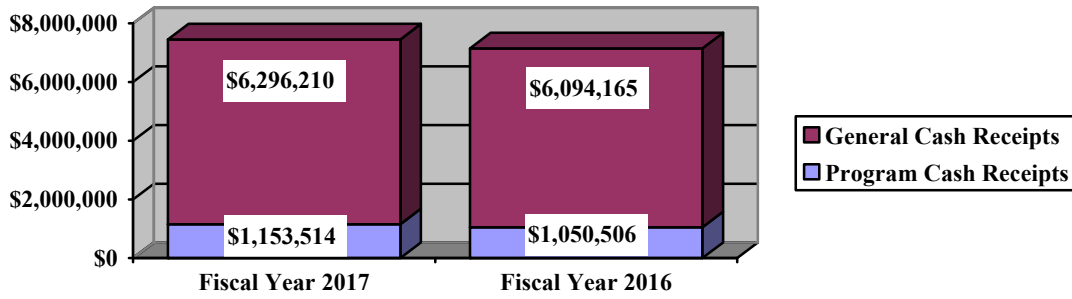
The dependence upon general cash receipts for governmental activities is apparent; with 82.66% of cash disbursements supported through taxes and other general cash receipts during 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The graph below presents the District's governmental activities cash receipts for fiscal years 2017 and 2016.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$6,079,329, which is higher than last year's total cash balance of \$5,280,784. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2017 and June 30, 2016.

	Fund Cash Balance June 30, 2017	Fund Cash Balance June 30, 2016	Increase	Percentage Change
General	\$ 4,995,946	\$ 4,533,451	\$ 462,495	10.20 %
Permanent Improvement	751,099	418,756	332,343	79.36 %
Other Governmental	<u>332,284</u>	<u>328,577</u>	<u>3,707</u>	1.13 %
Total	<u>\$ 6,079,329</u>	<u>\$ 5,280,784</u>	<u>\$ 798,545</u>	15.12 %

General Fund

The general fund, the District's largest major fund, had cash receipts of \$6,414,740 in 2017. The cash disbursements and other financing uses of the general fund, totaled \$5,952,245 in 2017. The general fund's cash balance increased \$462,495 or 10.20% from 2016 to 2017.

Overall cash receipts increased \$145,976 or 2.33% during fiscal year 2017. Tuition increased by 30.06% due to increase in open enrollment. All other receipts remained comparable to fiscal year 2017.

Overall cash disbursements increased \$284,532 or 5.51% during fiscal year 2017. Instruction Services increased by 5.31% due to an increase in the amount regular disbursement. All other disbursements remained comparable to fiscal year 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

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

	2017 <u>Amount</u>	2016 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Cash receipts</u>				
Taxes	\$ 2,723,198	\$ 2,724,362	\$ (1,164)	(0.04) %
Tuition	489,129	376,081	113,048	30.06 %
Transportation fees	7,500	5,893	1,607	27.27 %
Earnings on investments	28,740	12,973	15,767	121.54 %
Intergovernmental	3,159,546	3,125,549	33,997	1.09 %
Other revenues	<u>6,627</u>	<u>23,906</u>	<u>(17,279)</u>	<u>(72.28) %</u>
 Total	 <u>\$ 6,414,740</u>	 <u>\$ 6,268,764</u>	 <u>\$ 145,976</u>	 2.33 %
<u>Cash disbursements</u>				
Instruction	\$ 3,298,090	\$ 3,131,723	\$ 166,367	5.31 %
Support services	1,862,363	1,864,552	(2,189)	(0.12) %
Extracurricular activities	163,749	165,030	(1,281)	(0.78) %
Facilities acquisition and construction	<u>121,635</u>	<u>-</u>	<u>121,635</u>	100.00 %
 Total	 <u>\$ 5,445,837</u>	 <u>\$ 5,161,305</u>	 <u>\$ 284,532</u>	 5.51 %

Permanent Improvement Fund

The District's permanent improvement fund is reported as a major fund. The permanent improvement fund had \$451,286 in cash receipts and other financing sources and \$118,943 in cash disbursements. During fiscal year 2017, the permanent improvement fund cash balance increased from \$418,756 to \$751,099.

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 \$6,511,229 were \$483,679 more than the original budget estimates of \$6,027,550. Actual cash receipts and other financing sources of \$6,426,108 were less than final budget estimates by \$85,121. The final budgetary basis disbursements and other financing uses of \$6,240,105 were \$317,173 more than the original budget estimates of \$5,922,932. The actual budgetary basis disbursements and other financing uses of \$6,089,273 were \$150,832 less than the final budget estimates.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

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, 2017, the District had \$3,680,004 in school improvement bonds and capital lease obligations. Of the total long-term obligations, \$152,775 is due in one year and \$3,527,229 is due in greater than one year. The following table summarizes the long-term obligations outstanding at June 30, 2017 and 2016.

Outstanding Debt, at Year End

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
School improvement bond	\$ 2,970,000	\$ 3,055,000
Capital lease obligations	<u>710,004</u>	<u>769,944</u>
 Total	 <u>\$ 3,680,004</u>	 <u>\$ 3,824,944</u>

At June 30, 2017, the District had a legal voted debt margin of \$6,020,398, and an unvoted debt margin of \$98,345. See Note 8 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Our District, like most other Districts, continues to face many challenges this year and in the years to come. As the preceding information shows, the District relies heavily upon property taxes, income taxes (1 3/4% continuing), and unrestricted State aid. Locally, the District has very little industry within its boundaries, which makes the property tax and income tax even more vital to the District's operation and existence. The District did have receipts in excess of disbursements in the amount of \$798,545 for fiscal year 2017.

In regards to State funding, our largest area of receipts, the biennial State budget which impacts fiscal year 2017, does indicate increases in our State receipts.

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

Contacting the District's Financial Management

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

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,079,329
Total Assets	\$6,079,329
 Net Cash Position	
Restricted for:	
Capital Projects	259,888
Classroom Facilities Maintenance	77,330
Debt Service	139,393
State Funded Programs	5,374
Federally Funded Programs	2,775
Student Activities	22,206
Food Service Operations	73,910
Unrestricted	5,498,453
Total Net Cash Position	\$6,079,329

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Total
Governmental Activities:				
Instruction:				
Regular	\$2,744,381	\$459,691	\$17,286	(\$2,267,404)
Special	532,445	38,345	300,494	(193,606)
Vocational Education	196,014		34,018	(161,996)
Support Services:				
Pupil	247,351		1,830	(245,521)
Instructional Staff	204,003		30,783	(173,220)
Board of Education	39,891			(39,891)
Administration	434,487			(434,487)
Fiscal	228,296			(228,296)
Operation and Maintenance	608,051			(608,051)
Pupil Transportation	190,535		1,014	(189,521)
Central	545			(545)
Operation of Non-Instructional Services:				
Food Services Operations	192,924	96,346	90,382	(6,196)
Extracurricular Activities	263,085	82,488	837	(179,760)
Facilities acquisition and construction	284,037			(284,037)
Debt Service				
Principal Retirement	307,230			(307,230)
Interest and Fiscal Charges	177,904			(177,904)
Total Governmental Activities	<u>\$6,651,179</u>	<u>\$676,870</u>	<u>\$476,644</u>	<u>(5,497,665)</u>
General Receipts				
Property Taxes Levied for:				
				1,799,793
				199,592
				115,055
				19,723
				923,405
				3,044,963
				162,290
				29,039
				2,350
				<u>6,296,210</u>
				798,545
				<u>5,280,784</u>
				<u>\$6,079,329</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,995,946	\$751,099	\$332,284	\$6,079,329
Total Assets	<u>\$4,995,946</u>	<u>\$751,099</u>	<u>\$332,284</u>	<u>\$6,079,329</u>
Fund Balances:				
Restricted:				
Debt Service			\$139,393	\$139,393
Capital Improvements		\$248,592	11,296	259,888
Classroom Facilities Maintenance			77,330	77,330
Food Service Operations			73,910	73,910
Special Education			1,559	1,559
Target Academic Assistance			1,216	1,216
Extracurricular			22,206	22,206
Other Purposes			5,374	5,374
Assigned:				
Capital Projects		502,507		502,507
Student Instruction	\$36,301			36,301
Student and Staff Support	39,152			39,152
Facilities acquisition and construction	53,378			53,378
Subsequent Year Budget Deficit	308,515			308,515
Unassigned	4,558,600			4,558,600
Total Fund Balances	<u>\$4,995,946</u>	<u>\$751,099</u>	<u>\$332,284</u>	<u>\$6,079,329</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
From Local Sources:				
Property Taxes	\$1,799,793	\$115,055	\$219,315	\$2,134,163
Income Taxes	923,405			923,405
Tuition	489,129			489,129
Transportation Fees	7,500			7,500
Earnings on Investments	28,740	13	286	29,039
Charges for Services			96,346	96,346
Extracurricular			79,618	79,618
Classroom Materials and Fees	1,407			1,407
Contributions and Donations			837	837
Other Local Revenue	5,220			5,220
Intergovernmental - State	3,126,720	14,383	63,426	3,204,529
Intergovernmental - Federal	32,826		283,415	316,241
Total Receipts	<u>6,414,740</u>	<u>129,451</u>	<u>743,243</u>	<u>7,287,434</u>
Cash Disbursements:				
Current:				
Instruction				
Regular	2,732,122		12,259	2,744,381
Special	369,954		162,491	532,445
Vocational	196,014			196,014
Support Services				
Pupil	245,495		1,856	247,351
Instructional Staff	173,220		30,783	204,003
Board of Education	39,891			39,891
Administration	434,487			434,487
Fiscal	221,082	2,448	4,766	228,296
Operation and Maintenance	557,108	14,933	36,010	608,051
Pupil Transportation	190,535			190,535
Central	545			545
Operation of Non-Instructional Services:				
Food Services Operations			192,924	192,924
Extracurricular Activities	163,749		99,336	263,085
Facilities Acquisition and Construction	121,635	112	162,290	284,037
Debt Service:				
Principal		59,940	247,290	307,230
Interest and Fiscal Charges		41,510	136,394	177,904
Total Cash Disbursements	<u>5,445,837</u>	<u>118,943</u>	<u>1,086,399</u>	<u>6,651,179</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>968,903</u>	<u>10,508</u>	<u>(343,156)</u>	<u>636,255</u>
Other Financing Sources (Uses):				
Loan Proceeds			162,290	162,290
Transfers In		321,835	184,573	506,408
Transfers (Out)	(506,408)			(506,408)
Total Other Financing Sources (Uses)	<u>(506,408)</u>	<u>321,835</u>	<u>346,863</u>	<u>162,290</u>
Net Change in Fund Balances	462,495	332,343	3,707	798,545
Fund Balances at Beginning of Year	<u>4,533,451</u>	<u>418,756</u>	<u>328,577</u>	<u>5,280,784</u>
Fund Balances at End of Year	<u>\$4,995,946</u>	<u>\$751,099</u>	<u>\$332,284</u>	<u>\$6,079,329</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCE - BUDGET AND ACTUAL - (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary Cash Receipts				
From Local Sources:				
Property Taxes	\$1,760,000	\$1,799,793	\$1,799,793	
Income Taxes	944,350	923,405	923,405	
Tuition	402,000	498,220	489,129	(9,091)
Transportation Fees	7,500	7,500	7,500	
Earnings on Investments	13,000	25,850	28,740	2,890
Classroom Materials and Fees			1,407	1,407
Other Local Revenues	5,000	5,000	1,117	(3,883)
Intergovernmental - State	2,883,700	3,203,284	3,126,720	(76,564)
Intergovernmental - Federal	12,000	32,825	32,826	1
Total Budgetary Cash Receipts	<u>6,027,550</u>	<u>6,495,877</u>	<u>6,410,637</u>	<u>(85,240)</u>
Budgetary Cash Disbursements				
Current:				
Instruction				
Regular	2,775,478	2,789,355	2,780,308	9,047
Special	381,029	372,939	370,986	1,953
Vocational	220,734	203,324	197,336	5,988
Support Services:				
Pupil	244,011	252,871	251,161	1,710
Instructional Staff	177,125	178,863	177,412	1,451
Board of Education	56,157	43,533	41,521	2,012
Administration	472,795	459,175	436,996	22,179
Fiscal	243,251	242,436	236,725	5,711
Operations and Maintenance	605,375	586,565	561,922	24,643
Pupil Transportation	247,323	248,497	190,797	57,700
Central	1,005	1,000	545	455
Extracurricular Activities	151,021	162,144	162,143	1
Facilities acquisition and construction	126,577	178,350	175,013	3,337
Total Budgetary Cash Disbursements	<u>5,701,881</u>	<u>5,719,052</u>	<u>5,582,865</u>	<u>136,187</u>
Excess of Budgetary Cash Receipts Over Budgetary Cash Disbursements	325,669	776,825	827,772	50,947
Other Financing Sources (Uses)				
Refund of Prior Year's Expenditure		14,119	14,238	119
Transfers (out)	(221,053)	(521,053)	(506,408)	14,645
Sale of Capital Assets		1,233	1,233	
Total Other Financing Sources (Uses)	<u>(221,053)</u>	<u>(505,701)</u>	<u>(490,937)</u>	<u>14,764</u>
Net Change in Fund Balance	104,616	271,124	336,835	65,711
Fund Cash Balance at Beginning of Year	4,479,257	4,479,257	4,479,257	
Prior Year Encumbrances Appropriated	51,023	51,023	51,023	
Fund Cash Balance at End of Year	<u>\$4,634,896</u>	<u>\$4,801,404</u>	<u>\$4,867,115</u>	<u>\$65,711</u>

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUND
JUNE 30, 2017

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$35,946
Total Assets	<u>35,946</u>
Net Position	
Held for Students	\$35,946
Total Net Position	<u>\$35,946</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, 2017**

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 43 certified employees, 20 classified employees and 3 administrators to provide services to 451 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, 2017
(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.

Hardin County Schools Consortium Local Professional Development Committee (the Consortium)

The Consortium is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from Keith Thomas, Midwest Regional Educational Service Center, 121 South Opera Street, Bellefontaine, OH.

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, 2017
(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 and the District. The Trust is organized as a Voluntary Employee Benefit association under Section 501(C)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee, which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

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

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 that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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

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.

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, 2017
(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 fund and special cost center level.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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

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 2017, 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 2017, 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 \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 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 2017 amounted to \$28,740, which includes \$4,543 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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

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 2017.

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, 2017.

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, 2017
(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, 2017.

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, 2017.

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 2017.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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

Q. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

B. Compliance

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2017, the carrying amount of all District deposits was \$5,720,996. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the District's entire bank balance of \$5,756,464 was covered by the FDIC.

C. Investments

As of June 30, 2017, 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>392,315</u>	\$ <u>392,315</u>

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase. The District has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. State statute requires that an investment mature within five years from the date of purchase, unless matched to a 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, 2017:

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>NAV</u>	<u>% of Total</u>
STAR Ohio	\$ <u>392,315</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, 2017:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 5,720,996
Investments	392,315
Cash on hand	<u>1,964</u>
Total	<u>\$ 6,115,275</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 6,079,329
Agency fund	<u>35,946</u>
Total	<u>\$ 6,115,275</u>

NOTE 5 - INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2017, as reported on the fund statements, consist of the following:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Permanent Improvement	General	\$ 321,835
Nonmajor governmental	General	<u>184,573</u>
Total		<u>\$ 506,408</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 93,538,310	95.93	\$ 94,312,530	95.90
Public utility personal	<u>3,971,670</u>	<u>4.07</u>	<u>4,031,970</u>	<u>4.10</u>
Total	<u>\$ 97,509,980</u>	<u>100.00</u>	<u>\$ 98,344,500</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.15		\$41.15	

NOTE 7 - INCOME TAX

The District levies a voted tax of 1¼% 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2017, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/16</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/17</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
School improvement bond, 4.46%	\$ 3,055,000	\$ -	\$ (85,000)	\$ 2,970,000	\$ 90,000
Capital lease purchase agreement	728,085	-	(39,307)	688,778	41,549
Capital lease bus	41,859	-	(20,633)	21,226	21,226
Energy conservation loan	-	162,290	(162,290)	-	-
Total long-term obligations	<u>\$ 3,824,944</u>	<u>\$ 162,290</u>	<u>\$ (307,230)</u>	<u>\$ 3,680,004</u>	<u>\$ 152,775</u>

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

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

During fiscal year 2017 the District issued a H.B. 264 Energy Conservation Loan in the amount \$162,290 for the upgrade to LED lighting districtwide. The balance of the loan was paid in full during the fiscal year 2017.

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
2018	\$ 90,000	\$ 130,455	\$ 41,549	\$ 38,178	\$ 131,549	\$ 168,633
2019	95,000	126,330	43,919	35,808	138,919	162,138
2020	100,000	121,981	46,424	33,393	146,424	155,374
2021	105,000	117,410	49,072	30,655	154,072	148,065
2022	110,000	112,615	51,871	27,856	161,871	140,471
2023 - 2027	640,000	482,350	307,263	91,436	947,263	573,786
2028 - 2032	795,000	322,796	148,680	10,634	943,680	333,430
2033 - 2037	1,035,000	122,762	-	-	1,035,000	122,762
Total	<u>\$ 2,970,000</u>	<u>\$ 1,536,699</u>	<u>\$ 688,778</u>	<u>\$ 267,960</u>	<u>\$ 3,658,778</u>	<u>\$ 1,804,659</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS

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, 2017, are a voted debt margin of \$6,020,398 (including available funds of \$139,393) and an unvoted debt margin of \$98,345.

NOTE 9 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

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

Principal and interest payments in the 2017 fiscal year totaled \$21,835. This amount is reported as debt service payments of the permanent improvement fund.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the future minimum lease payments as of June 30, 2017:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2018	<u>\$ 21,835</u>
Total minimum lease payment	21,835
Less: amount representing interest	<u>(609)</u>
Present value of minimum lease payments	<u>\$ 21,226</u>

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2017, the District contracted with the Schools of Ohio Risk Sharing Authority (SORSA) for the following insurance coverage:

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HARDIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 10 - RISK MANAGEMENT – (Continued)

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

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

B. Workers' Compensation

The District participates in the 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 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 11 - 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, 2017
(Continued)

NOTE 11 - 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	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS – (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$84,336 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - District 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 Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five 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 sixty-five or thirty-five years of service credit and at least age sixty.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. 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 fifty or later.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - 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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2017, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent. The statutory member contribution was increased 1 percent to 14 percent on July 1, 2016. The 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$312,408 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, 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:

	SERS	STRS Ohio	Total
Proportion of the net pension liability prior measurement date	0.01858740%	0.02082830%	
Proportion of the net pension liability current measurement date	<u>0.01914040%</u>	<u>0.02075573%</u>	
Change in proportionate share	<u>0.00055300%</u>	<u>-0.00007257%</u>	
Proportionate share of the net pension liability	\$ 1,400,901	\$ 6,947,568	\$ 8,348,469

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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

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, 2016, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year setback for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

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	<u>10.00</u>	3.00
 Total	 <u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. A discount rate of 7.75 percent was used in the prior measurement period. 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 earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 1,854,705	\$ 1,400,901	\$1,021,047

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 9,232,754	\$ 6,947,568	\$5,019,880

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the School District's net pension liability is expected to be significant.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the District's surcharge obligation was \$8,926.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$8,926, \$8,863, and \$17,523, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of cash receipts, 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,
- (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	\$ 336,835
Funds budgeted elsewhere	1,264
Adjustment for encumbrances	<u>124,396</u>
Cash basis	<u>\$ 462,495</u>

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 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 14 – CONTINGENCIES – (Continued)

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, 2017 Foundation funding for the District; as a result of the fiscal year 2018 review, the District received an additional \$2,882.52 from ODE. This amount has not been included in the financial statements.

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	\$ 124,396
Nonmajor governmental	<u>12,838</u>
Total	<u>\$ 137,234</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, 2016	\$ -
Current year set-aside requirement	76,383
Current year offset	<u>(76,383)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

OHIO AUDITOR OF STATE KEITH FABER



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 Hardin Northern Local School District, Hardin County, Ohio (the District) as of and for the fiscal years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2018-001.

District's Response to Finding

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 28, 2019

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2018 AND JUNE 30, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2018-001

Noncompliance Citation

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

Ohio Admin. Code § 117-2-03(B) requires all school districts to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). As a cost savings measure 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.

Hardin Northern Local School

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



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Mr. Andrew Cano
7-12 Principal
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Mr. Brett Halsey
K-6 Principal
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Mr. Wesley Potter
Treasurer
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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

JUNE 30, 2018 AND 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	<p>Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Failed to file annual financial reports using generally accepted accounting principles. This was first reported for the fiscal year ended June 30, 2013.</p>	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.

OHIO AUDITOR OF STATE KEITH FABER



HARDIN NORTHERN LOCAL SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2019**