KLEIN HALL

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL FINANCIAL REPORT

Board of Education
Frankfort Community Consolidated School District 157-C
Frankfort, Illinois

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort Community Consolidated School District 157-C (the District), as of and for the year ended June 30, 2018, which collectively comprise the District's basic financial statements. The basic financial statements have been audited, however, they are not presented as part of this Annual Financial Report form. The basic financial statements should be read in conjunction with the following auditors' opinion. Our opinion read as follows:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort Community Consolidated School District 157-C, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Frankfort Community Consolidated School District 157-C's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Frankfort Community Consolidated School District 157-C's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort Community Consolidated School District 157-C, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* during the year ended June 30, 2018. Statement No. 75 expands disclosures related to postemployment benefits other than pensions and requires the District to report the net other postemployment benefit liability in the statement of net position. The adoption of this statement had no effect on any of the District's fund balances but reduced the District's governmental activities net position by $14,450,664 as of July 1, 2017 as disclosed in note 13. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Frankfort Community Consolidated School District 157-C's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2018 on our consideration of Frankfort Community Consolidated School District 157-C's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Frankfort Community Consolidated School District 157-C's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

These regulatory-based financial statements are issued to comply with regulatory provisions prescribed by the Illinois State Board of Education, which is a comprehensive basis of accounting other than, and differs from accounting principles generally accepted in the United States of America. They are intended to assure effective legislative and public oversight of school district financing and spending activities of accountable Illinois public school districts. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information provided on pages 2 through 4, supplementary schedules on pages 23 through 25, statistical section on pages 26 through 30 and the itemization schedule on page 33, are presented for the purposes of additional analysis and are not a required part of the financial statements of the District. Such information, except for the average daily attendance figure, included in the computation of operating expense per pupil on page 27 and per capita tuition charges on page 28, is the responsibility of management and has been derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The information on pages 27-28 and 30 is propagated from information in the audited financial statements, but we take no responsibility for the accuracy of those calculations. The Report on Shared Services or Outsourcing on page 31 and Indirect Cost Rate-Contracts Paid it the Current Year on paid 29 contains unaudited information concerning prior, current, and future year expenditures which was provided by the District. The Administrative Cost Worksheet on page 32 contains unaudited information concerning the current year budget which was provided by the District. The actual expenditure information on this page is fairly stated in all material respects in relation to the financial statements taken as a whole. The average daily attendance figure, included in the computation of operating expenses per pupil on page 27 and per capita tuition charges on page 28, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Purpose of this Report

This report is intended solely for the information and use of the Board of Education, management of the District, and the Illinois State Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Klein Hall CPAs

Klein Hall CPAs
Aurora, Illinois
November 27, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Education
Frankfort Community Consolidated School District 157-C
Frankfort, IL

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort Community Consolidated School District 157-C as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Frankfort Community Consolidated School District 157-C's basic financial statements, and have issued our report thereon dated November 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Frankfort Community Consolidated School District 157-C's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Frankfort Community Consolidated School District 157-C's internal control. Accordingly, we do not express an opinion on the effectiveness of Frankfort Community Consolidated School District 157-C's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Frankfort Community Consolidated School District 157-C's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Klein Hall CPAs

Klein Hall CPAs
Aurora, Illinois
November 27, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frankfort Community Consolidated School District 157-C (the "District") operates as a public school system governed by a seven-member board. The District is organized under the School Code of the State of Illinois, as amended. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, as applicable to local governmental units of this type. The following is a summary of the more significant accounting policies of the District:

a. Reporting Entity

Accounting principles generally accepted in the United States of America require that the financial statements of the reporting entity include: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 as amended by No. 61 have been considered and there are no agencies or entities which should be presented with the District. Using the same criteria, the District is not included as a component unit of any other governmental entity.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. This report does not contain any component units.

b. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's operating activities are all considered "governmental activities", that is, activities normally supported by taxes and intergovernmental revenues. The District has no operating activities that would be considered "business activities".

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) amounts paid by the recipient of goods or services offered by the program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds Financial Statements

Governmental funds financial statements are organized and operated on the basis of funds and are used to account for the District's general governmental activities. Fund accounting segregates funds according to their intended purpose, and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, reserves, fund balance, revenues and expenditures. The minimum number of funds is maintained consistent with legal and managerial requirements.

Separate financial statements are provided for all governmental funds and fiduciary funds; the fiduciary funds are excluded from the government-wide financial statements.

c. Measurement Focus and Basis of Accounting

The government-wide financial statements and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both "measurable and available". "Measurable" means that the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, expenditures for unmatured principal and interest on long-term debt are recognized when due; and certain compensated absences, claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

<u>General Fund (Major Fund)</u> - (Educational, Operations and Maintenance, Working Cash and Tort Accounts) the general operating fund of the District. It accounts for and reports all financial resources not accounted for and reported in another fund. This fund is primarily used for most of the instructional and administrative aspects of the District's operations. Revenues consist largely of local property taxes and state government aid.

<u>Debt Service Fund (Major Fund)</u> - accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. The primary revenue source is local property taxes levied specifically for debt service.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds -account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, other than those accounted for in the Debt Service Fund, Capital Projects Funds or Fiduciary Funds.

Transportation Fund – Accounts for the District's transportation costs. Revenues consist of local property taxes and state governmental aid.

Municipal Retirement/Social Security Fund accounts for the District's portion of pension contributions to the Illinois Municipal Retirement Fund, payments to Medicare, and payments to the Social Security System for non-certified employees. Revenue to finance the contributions is derived primarily from local property taxes and personal property replacement taxes.

Capital Projects Funds - account for financial resources to be used for the acquisition or construction of major capital facilities.

Capital Projects Fund - accounts for the financial resources to be used for the acquisition or construction of, and/or in addition to, major capital facilities.

Fire Prevention and Safety Fund -accounts for revenue levied for purposes of fire prevention, safety, energy conservation or school security and related expenditures.

Fiduciary Funds - account for assets held by the District in a trustee capacity or as an agent for individuals, organizations, other governments or other funds.

Agency Funds include Student Activity Funds, Convenience Accounts and Other Agency Funds. These funds are custodial in nature and do not present results of operations or have a measurement focus. Although the Board of Education has the ultimate responsibility for Activity Funds, they are not local education agency funds. Student Activity Funds account for assets held by the District which are owned, operated and managed generally by the student body, under the guidance and direction of adults or a staff member, for educational, recreational or cultural purposes. Convenience Accounts track and record assets that are normally maintained by a local education agency as a convenience for its faculty, staff, etc.

Deposits and Investments

The District maintains commingled accounts for several funds for operating activity, with accounting control over each fund's balance in the account.

The District follows the practice of pooling excess cash for investment purposes. Each fund's portion of total investments is under accounting control. Earnings are prorated to each fund when recognized as revenue. Investments are reported at fair market value. Changes in fair values of investments are included in investment income.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund payables/receivables". These amounts are eliminated in the governmental activities column in the statement of net position. Receivables are expected to be collected within one year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement clement, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. A deferred charge on refunding is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Unearned Revenue

Unearned revenue resources that have been received, but not yet earned, consisting primarily of fees collected as of year-end applicable to the next school year.

Property Tax Revenues

The District must file its tax levy resolution by the last Tuesday in December of each year. The District's 2017 levy resolution was approved during the December 20, 2017 Board of Education meeting. The District's property tax is levied each year on all taxable real property located in the District, and it becomes a lien on the property on January 1 of that year. The owner of real property on January 1 in any year is liable for taxes of that year. The District's annual property tax levy is subject to two statutory limitations: Individual fund rate ceilings and the Property Tax Extension Limitation Act (PTELA).

The PTELA limitation is applied in the aggregate to the total levy (excluding certain levies for the repayment of debt or other voter referenda provisions). PTELA limits the increase in total taxes billed to the lesser of 5% or the new percentage increase in the Consumer Price Index (CPI) for the preceding year. The amount can be exceeded to the extent there is "new growth" in the District's tax base. The new growth consists of new construction, annexations and tax increment finance district property becoming eligible for taxation.

Property taxes are collected by the County Collector/Treasurer, who remits to the District its share of collections. Taxes levied in one year become due and payable in two equal installments the following year: the first due on June 1 and the second due on September 1. Property taxes are normally collected by the District within 60 days of the respective installment dates.

A portion of the 2017 property tax levy is recognized as a receivable in fiscal year 2018. The District considers that the first installment of the 2017 levy is to be used to finance operations in fiscal year 2018. The District has determined that the second installment of the 2017 levy is to be used to finance operations in fiscal year 2019 and has recorded these amounts as deferred inflows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Personal Property Replacement Taxes

Personal property replacement taxes are first allocated to the Municipal Retirement/Social Security Fund, and the balance is then allocated to the remaining funds at the discretion of the District.

Prepaid Items

Certain payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid assets.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, maintenance vehicles and various equipment, are reported in the government-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of more than $5,000 and an estimated useful life of 5 years or more. Such assets are recorded at historical cost or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Depreciation of capital assets is provided using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	20-80
Buildings	20-80
Equipment	5-25

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the applicable bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as expenses during the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the period incurred. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications

The governmental fund financial statements present fund balances that are based on classifications representing the extent to which the School District is bound to honor the constraints or restrictions on the specific purposes for which the amounts in these respective governmental funds may be used. The classifications used in these governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form (i.e., not cash or cash equivalents) or (b) are legally or contractually required to be maintained intact. Examples of such items might include inventories, prepaid items, land or buildings held for future use or sale, or long-term investments that are not expected to be converted to cash within the next year, if at all.

- Restricted: This classification includes amounts for which constraints have been placed on their use by either (a) externally imposed creditors, grantors, contributors, laws or regulations, or (b) imposed or restricted by law through constitutional provisions or enabling legislation. Such restricted funds might include amounts for capital projects related to developer donations and impact fees, debt service retirement monies, municipal retirement fund and social security fund contributions, tort related activities, health and life safety approved projects, and any funds or assets donated or bequeathed to the school district for a particular purpose.

- Committed: This classification includes amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purposes, unless the constraints are removed by subsequent similar action of the Board of Education. This classification may also include contractual obligations to the extent that existing resources have specifically been committed for use in satisfying those contractual requirements.

- Assigned: This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose, but are neither formally restricted nor committed. This intent can be expressed by the Board of Education or their delegation to the Superintendent or Assistant Superintendent through the budgetary process. This classification also includes any remaining fund balances for governmental funds except for the general funds (the education fund, operations and maintenance fund, working cash, and tort fund).

- Unassigned: This classification includes any residual fund balances for the general funds, including interest earned as long as it is not restricted in use by law or decree, except as any of those amounts may be restricted, committed or assigned as described above. This classification also includes any negative residual fund balances of any other governmental funds that cannot be eliminated or offset by use of assigned fund balance amounts.

The School District typically uses restricted fund balances first whenever possible, followed by committed fund balances next, and then assigned fund balances third, before using any unassigned fund balances last, as described above. However, the School District reserves the right to spend unassigned resources first and defer the use of the other classified funds if the Board of Education and Administration feel it is in the best interest of the School District to do so.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Eliminations and Reclassifications

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances were eliminated or reclassified.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Teachers' Retirement System of the State of Illinois (TRS) and the Illinois Municipal Retirement Fund (IMRF), together "the Plans," and additions to/deductions from the Plans' fiduciary net positions have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other

In accordance with GASB No. 24, on-behalf payments (payments made by a third party for the benefit of the District, such as payments made by the state to the Teachers' Retirement System) have been recognized in the financial statements.

Property taxes, replacement taxes, certain state and federal aid, and interest on investments are susceptible to accrual. Other receipts become measurable and available when cash is received by the District and recognized as revenue, or unearned revenue, or deferred inflows of resources based all the period to which the receipts relate.

2. DEPOSITS AND INVESTMENTS

At year end, the District's cash and investments that are comprised of the following for disclosure purposes, which are segregated into the following components: 1) deposits with financial institutions, which include amounts held in demand accounts, savings accounts and non-negotiable certificates of deposit; 2) external investment pools and 3) other investments, which consist of all investments other than non-negotiable certificates of deposits and external investment pools. As follows:

Cash and Investments	Governmental Funds	Fiduciary Funds	Total
Deposits with financial institutions	$ 42,302,461	$ 203,129	$ 42,505,590
External investment pool - ISDLAF	10,186,617	-	10,186,617
Other investments	800,735	-	800,735
	$ 53,289,813	$ 203,129	$ 53,492,942

2. DEPOSITS AND INVESTMENTS (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

Investment Type	Fair Value	Maturity	% of Portfolio	Credit Rating
U.S. Treasury Note	$ 800,735	1 year	100.0%	AAA

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The District does not have formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the District's policy states the objectives of the District's investment activities to be meeting the school district's need for safety, liquidity, rate of return, and diversification, and its general performance.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State Statues limit the investments in commercial paper and corporate bonds to the top three ratings of two nationally recognized statistical rating organizations (NRSRO's). The District has no investment policy that would further limit its investment choices.

The Illinois School District Liquid Asset Fund Plus (ISDLAF+) is an investment pool created and regulated by the Illinois General Assembly. The fair value of the District's investment in ISDLAF+ has been determined using the net asset value (NAV) per share (or its equivalent) of the investments. The NAV of the Liquid Class and MAX Class are determined as of the close of business on each Illinois banking day. The Multi-Class Series invests in high-quality short-term debt instruments (money market instruments), and shares may be redeemed on any Illinois banking day. The Term Series invest in high-quality debt instruments, which are generally money market instruments but may include instruments with a maturity over one year, and shares may be redeemed with seven days' advance notice. There were no known restrictions on redemption of the District's investments as of June 30, 2018.

Custodial Credit Risk – Deposits. With respect to deposits, custodial credit risk refers to the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy limits the exposure to deposit custodial credit risk by requiring all deposits in excess of FDIC insurable limits to be secured by collateral in the event of default or failure of the financial institution holding the funds. As of June 30, 2018, the bank balance of the District's deposits with financial institutions totaled $42,996,918, all of which all was collateralized or insured.

2. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – Investments. With respect to investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy limits the exposure to investment custodial credit risk by requiring all investments be secured by private insurance or collateral.

Separate cash and investment accounts are not maintained for all District funds; instead, the individual funds maintain their invested and uninvested balances in the common checking and investment accounts, with accounting records being maintained to show the portion of the common account balance attributable to each participating fund.

3. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 1,998,122	$ -	$ -	$ 1,998,122
Total capital assets not being depreciated	1,998,122	-	-	1,998,122
Capital assets being depreciated:				
Land improvements	3,966,965	659,735	-	4,626,700
Buildings	73,902,963	-	-	73,902,963
Equipment	3,730,599	208,133	26,151	3,912,581
Total capital assets being depreciated	81,600,527	867,868	26,151	82,442,244
Less Accumulated depreciation for:				
Land Improvements	2,606,483	189,810	-	2,796,293
Buildings	26,712,007	1,858,551	-	28,570,558
Equipment	2,739,003	317,654	23,536	3,033,121
Total accumulation depreciation	32,057,493	2,366,015	23,536	34,399,972
Net capital assets being depreciated	49,543,034	(1,498,147)	2,615	48,042,272
Net governmental activities capital assets:	$ 51,541,156	$ (1,498,147)	$ 2,615	$ 50,040,394

Depreciation expense was recognized in the operating activities of the District as follows:

Depreciation expense -governmental activities -unallocated $2,366,015

4. LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions/ Payments	Ending Balance	Amount Due Next Year
General obligation bonds:					
Series 2009	$ 135,000	$ -	$ 135,000	$ -	$ -
Series 2010A	500,000	-	-	500,000	225,000
Series 2011	1,575,000	-	-	1,575,000	1,575,000
Series 2012	3,525,000	-	-	3,525,000	1,590,000
Series 2013	8,380,000	-	-	8,380,000	-
Series 2014	3,855,000	-	3,480,000	375,000	375,000
	17,970,000	-	3,615,000	14,355,000	3,765,000
Unamortized premium	405,670	-	227,420	178,250	142,818
Total bonds payable	18,375,670	-	3,842,420	14,533,250	3,907,818
Capital leases	76,351	-	47,053	29,298	29,298
Net pension liability - TRS	1,358,152	109,084		1,467,236	-
Net pension liability - IMRF	1,614,114	-	777,800	836,314	-
Net OPEB liability - THIS	14,062,924	1,457,080	-	15,520,004	-
Net OPEB liability - retirees' health plan	392,425	-	105,722	286,703	-
Total long-term liabilities	$ 35,879,636	$ 1,566,164	$ 4,772,995	$ 32,672,805	$ 3,937,116

Series 2009 bonds, original issue $1,500,000, dated May 1, 2009 provide for the serial retirement of principal on January 1 and interest payable on January 1 and July 1 of each year at rates from 3.00-3.25 percent. The purpose of this bond was to provide the District with working cash funds.

Series 2010A bonds, original issue $500,000, dated November 30, 2010, provide for the serial retirement of principal on January 1 and interest payable January 1 and July 1 of each year at rates of 4.3-4.65 percent. The purpose of these bonds was to create and maintain a working cash fund.

Series 2011 bonds. On December 15, 2011, the District issued $1,655,000 of General Obligation Refunding Bonds with interest rates of 1-3% to advance refund $1,570,000 of outstanding 2004B Series Bonds with an interest rate of 5%. These bonds provide for interest payable on January 1 and July 1 of each year and principal payments on January 1, 2013, 2014, 2015 and 2019.

Series 2012 bonds. On December 17, 2012, the District issued $3,525,000 of General Obligation Refunding Bonds with an interest rate of 3.0% to advance refund $2,325,026 of outstanding 2004C series bonds with interest rates of 5.05-5.17%. These bonds provide for interest payable on January 1 and July 1 of each year and principal payments on January 1, 2019 and 2020.

Series 2013 bonds. On December 5, 2013, the District issued $8,380,000 of General Obligation Refunding Bonds with interest rates of 1.95-2.55% to advance refund $5,698,337 of outstanding 2004C Series Bonds with interest rates of 5.52-5.59%. These bonds provide for interest payable on January 1 and July 1 of each year and principal payments on January 1, 2020, 2021, and 2022.

Series 2014 bonds. On January 31,2014, the District issued $7,150,000 of General Obligation Refunding Bonds with interest rate of 3.0-4.0% to advance refund $5,233,009 of outstanding 2004C Series Bonds with interest rates of 5.05-5.52%. These bonds provide for interest payable on January 1 and July 1 of each year and principal payments on January 1, 2017, 2018, and 2019.

4. LONG-TERM LIABILITIES (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows for governmental type activities:

Fiscal Year	Principal	Interest	Total
FY 2019	$ 3,765,000	$ 356,443	$ 4,121,443
FY 2020	3,895,000	235,393	4,130,393
FY 2021	4,000,000	160,723	4,160,723
FY 2022	2,695,000	68,723	2,763,723
Total	$ 14,355,000	$ 821,282	$ 15,176,282

5. CAPITAL LEASES

Capital lease obligations at June 30, 2018, and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Next Year
2014 lease	$ 18,396	$ -	$ 18,396	$ -	$ -
2015 lease	57,955	-	28,657	29,298	29,298
	$ 76,351	$ -	$ 47,053	$ 29,298	$ 29,298

The following presents future minimum lease payments as of June 30, 2018:

FY 2019	$ 29,952
Less interest	(654)
Present value of minimum lease payments	$ 29,298

None of the leased equipment under capital leases is reported in capital assets at June 30, 2018, since the individual items purchased did not exceed the District's capitalization threshold.

6. LEGAL DEBT MARGIN

The legal debt margin is calculated as follows:

Assessed valuation - 2017	$ 818,804,994
Debt limit - 6.9% of assessed valuation	56,497,545
Plus available fund balance	1,192,511
Less long-term debt	(14,384,298)
Legal debt margin	$ 43,305,758

7. INTERFUND BALANCES/TRANSFERS

The District made transfers as follows during the year ending June 30, 2018:

Transfer From	Transfer To	Amount
General Fund - Educational Account	General Fund - Operations and Maintenance	$ 600,000
General Fund - Educational Account	Debt Service Fund	648,781
General Fund - Operations and Maintenance	General Fund - Educational Account	1,000,000
General Fund - Operations and Maintenance	Debt Service Fund	400,000
General Fund - Operations and Maintenance	Capital Projects Fund	630,000
Transportation Fund	General Fund - Educational Account	2,500,000
	Total Transfers	$ 5,778,781

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets and natural disasters.

To protect from such risks, the District participates in the following public entity risk pool: SSCIP (Suburban School Cooperative Insurance Pool). The District pays annual premiums to the pool for insurance coverage. The arrangement with the pool provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain levels established by the pool.

To protect against worker's compensation claims, the District participates in the Illinois Counties Risk Management Trust, a public entity risk pool. The District pays annual premiums to the pool for insurance coverage. The arrangement with the pool provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain levels established by the pool.

Beginning on January 1, 2017, the District became self-insured for health. The District health insurance activity is accounted for in the General Fund. The District has a third party administrator monitor and pay claims as they come due. Liabilities of the program are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and societal factors.

Changes in the balance of claim liabilities during the past fiscal years are as follows:

	Fiscal Year 2018	Fiscal Year 2017
Claims Liability Balance, Beginning of Year	$ 407,903	$ -
Claims Incurred	2,249,005	1,311,049
Claims Paid	(2,221,483)	(903,146)
Claims Liability Balance, End of Year	$ 435,425	$ 407,903

9. EMPLOYEE RETIREMENT SYSTEMS

The retirement plans of the District include the Teachers' Retirement System of the State of Illinois (TRS) and the Illinois Municipal Retirement Fund (IMRF). Most funding for TRS is provided through payroll withholdings of certified employees and contributions made by the State of Illinois on-behalf of the District. IMRF is funded through property taxes and a perpetual lien of the District's corporate personal property replacement tax. Each retirement system is discussed below.

a. Teachers' Retirement System of the State of Illinois (TRS)

Plan Description

The District participates in the TRS. TRS is a cost-sharing, multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the City of Chicago. TRS members include all active non-annuitants who are employed by a TRS-covered employer to provide services for which teacher licensure is required. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The TRS Board of Trustees is responsible for the System's administration.

TRS issues a publicly available financial report that can be obtained at https://www.trsil.org/financial/cafrs/fy2017; by writing to TRS at 2815 W. Washington, PO Box 19253, Springfield, IL 62794; or by calling (888) 678-3675, option 2.

Benefits Provided

TRS provides retirement, disability, and death benefits. Tier I members have TRS or reciprocal system service prior to January 1, 2011. Tier I members qualify for retirement benefits at age 62 with five years of service, at age 60 with 10 years, or age 55 with 20 years. The benefit is determined by the average of the four highest years of creditable earnings within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. Most members retire under a formula that provides 2.2 percent of final average salary up to a maximum of 75 percent with 34 years of service. Disability and death benefits are also provided.

Tier II members qualify for retirement benefits at age 67 with 10 years of service, or a discounted annuity can be paid at age 62 with 10 years of service. Creditable earnings for retirement purposes are capped and the final average salary is based on the highest consecutive eight years of creditable service rather than the last four. Disability provisions for Tier II are identical to those of Tier I. Death benefits are payable under a formula that is different from Tier I.

Essentially all Tier I retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or on January 1 following the member's first anniversary in retirement, whichever is later. Tier II annual increases will be the lesser of three percent of the original benefit or one-half percent of the rate of inflation beginning January 1 following attainment of age 67 or on January 1 following the member's first anniversary in retirement, whichever is later.

Public Act 100-0023, enacted in 2017, creates an optional Tier III hybrid retirement plan, but it has not yet gone into effect. The earliest possible implementation date is July 1, 2019.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Contributions

The state of Illinois maintains the primary responsibility for funding TRS. The Illinois Pension Code, as amended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of fiscal year 2045.

Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The contribution rates are specified in the pension code. The active member contribution rate for the year ended June 30, 2017, was 9.0% of creditable earnings. The member contribution, which may be paid on behalf of employees by the employer, is submitted to TRS by the employer.

On-behalf contributions to TRS. The State of Illinois makes employer pension contributions on-behalf of the District. For the year ended June 30, 2018, State of Illinois contributions recognized by the District were based on the State's proportionate share of the collective net pension liability associated with the District, and the District recognized revenue and expenditures of $5,307,864 in pension contributions from the State of Illinois.

2.2 formula contributions. The District contributes 0.58% of total creditable earnings for the 2.2 formula change. This rate is specified by statute. Contributions for the year ended June 30, 2018 were $69,011, and are deferred because they were paid after the June 30, 2017 measurement date.

Federal and special trust fund contributions. When TRS members are paid from federal and special trust funds administered by the District, there is a statutory requirement for the District to pay an employer pension contribution from those funds. Under Public Act 100-0340, the federal and special trust fund contribution rate is the total employer normal cost beginning with the year ended June 30, 2018.

Previously, employer contributions for employees paid from federal and special trust funds were at the same rate as the state contribution rate to TRS and were much higher.

For the year ended June 30, 2018, the employer pension contribution was 10.10% of salaries paid from federal and special trust funds. For the year ended June 30, 2018, salaries totaling $0 were paid from the federal and special trust funds that required employer contributions of $0. These contributions are deferred because they were paid after the June 30, 2017 measurement date.

Employer retirement cost contributions. Under GASB Statement No. 68, contributions that an employer is required to pay because of a TRS member retiring are categorized as specific liability payments. The District is required to make a one-time contribution to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the member's age and salary. The maximum employer ERO contribution under the program that ended on June 30, 2016 is 146.5% and applies when the member is age 55 at retirement. For the year ended June 30, 2018, the employer paid $0 to TRS for employer ERO contributions for retirements that occurred before July 1, 2016.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

The employer is also required to make a one-time contribution to TRS for members granted salary increases over 6% if those salaries are used to calculate a retiree's final average salary. A one-time contribution is also required for members granted sick leave days in excess of the normal annual allotment if those days are used as TRS service credit. For the year ended June 30, 2018, the District paid $2,618 to TRS for employer contributions due on salary increases in excess of 6% and $0 for sick leave days granted in excess of the normal annual allotment.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability (first amount shown below) that reflected a reduction for State pension support provided to the District. The State's support and total are for disclosure purposes only. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	$	1,467,236
State's proportionate share of the net pension liability associated with the District		101,007,508
Total	$	102,474,744

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 June 30, 2016 and rolled forward to June 30, 2017. The District's proportion of the net pension liability was based on the District's share of contributions to TRS for the measurement year ended June 30, 2017, relative to the projected contributions of all participating TRS employers and the state during that period. At June 30, 2017, the District's proportion was 0.00192%, which was an increase of 0.00020% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $5,307,864 and revenue of $5,307,864 for support provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 15,936	$ 677
Changes in assumptions	97,927	42,162
Net difference between projected and actual earnings on pension plan investments	1,007	-
Changes in proportion and differences between District contributions and proportionate share of contributions	140,822	190,963
Total deferred amounts to be recognized in pension expense in future periods	255,692	233,802
District contributions subsequent to the measurement date	71,629	-
Total	$ 327,321	$ 233,802

$71,629 was reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Net Deferred Ouflows/(Inflows) of Resources
2018	(23,389)
2019	27,570
2020	8,674
2021	6,429
2022	2,606
Thereafter	-
Total	$ 21,890

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	varies by amount of service credit
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Mortality rates were based on the RP-2014 White Collar Table with adjustments as appropriate for TRS experience. The rates are used on a fully-generational basis using projection table MP-2014. The same assumptions were used in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class that were used by the actuary are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. large cap	14.4%	6.94%
U.S. equities small/mid cap	3.6%	8.09%
International equities developed	14.4%	7.46%
Emerging market equities	3.6%	10.15%
U.S. bonds core	10.7%	2.44%
International debt developed	5.3%	1.70%
Real estate	15.0%	5.44%
Commodities (real return)	11.0%	4.28%
Hedge funds (absolute return)	8.0%	4.16%
Private equity	14.0%	10.63%
	100.0%	

Discount rate

At June 30, 2017, the discount rate used to measure the total pension liability was 7.0 percent which was a change from the June 30, 2016 rate of 6.83 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates.

Based on those assumptions, TRS's fiduciary net position at June 30, 2017 was projected to be available to make all projected future benefit payments of current active and inactive members and all benefit recipients. Tier I's liability is partially funded by Tier II members, as the Tier II member contribution is higher than the cost of Tier II benefits. Due to this subsidy, contributions from future members in excess of the service cost are also included in the determination of the discount rate. All projected future payments were covered, so the long-term expected rate of return on TRS investments was applied to all periods of projected benefit payments to determine the total pension liability.

At June 30, 2016, the discount rate used to measure the total pension liability was 6.83 percent. The discount rate was the same as the actuarially-assumed rate of return on investments that year because TRS's fiduciary net position and the subsidy provided by Tier II were sufficient to cover all projected benefit payments.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Sensitivity of the employer's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, 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 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net pension liability	$ 1,802,690	$ 1,467,236	$ 1,192,470

Detailed information about the TRS's fiduciary net position as of June 30, 2017 is available in the separately issued TRS Comprehensive Annual Financial Report.

b. Illinois Municipal Retirement Fund (IMRF)

Plan Description and Benefits

The District's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The District's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained online at www.imrf.org.

All employees (other than those covered by TRS) hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members. IMRF provides two tiers of pension benefits. Employees hired prior to January 1, 2011, are eligible for Tier 1 benefits. For Tier 1 employees, pension benefits vest after eight years of service. Participating members who retire at age 55 (reduced benefits) or after age 60 (full benefits) with eight years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter. Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after 10 years of service. Participating members who retire at age 62 (reduced benefits) or after age 67 (full benefits) with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Membership

As of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	178
Active employees	73
Total	300

Contributions

As set by statute, Regular plan members are required to contribute 4.50% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The District's actual contribution rate for calendar year 2017 was 11.79% of covered payroll. The District contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value of Assets
Price inflation	2.50%
Salary increases	3.39% to 14.25%, including inflation
Investment rate of return	7.50%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2017 valuation pursuant to an experience study of the period 2014-2016.
Mortality	For non-disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). The IMRF specific rates were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). The IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table applying the same adjustment that were applied for non-disabled lives. For active members, an IMRF specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

9. EMPLOYEE RETIREMENT SYSTEM (Continued)

Net Pension Liability

The District's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Total pension liability/(asset)	$	9,364,193
Plan fiduciary net position		8,527,879
Net pension liability/(asset)	$	836,314

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	37.0%	6.85%
International equities	18.0%	6.75%
Fixed income	28.0%	3.00%
Real estate	9.0%	5.75%
Alternatives	7.0%	2.65-7.35%
Cash equivalents	1.0%	2.25%
	100.0%	

Single Discount Rate

The Single Discount Rate used to measure the total pension liability for IMRF was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and

2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

9. EMPLOYEE RETIREMENT SYSTEM (Continued)

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.31%, and the resulting single discount rate is 7.50%.

Changes in the Net Pension Liability

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at December 31, 2016	$ 8,911,327	$ 7,297,213	$ 1,614,114
Changes for the year:			
Service Cost	284,752	-	284,752
Interest on the Total Pension Liability	667,464	-	667,464
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual			-
Experience of the Total Pension Liability	52,407	-	52,407
Changes of Assumptions	(243,387)	-	(243,387)
Contributions - Employer	-	292,013	(292,013)
Contributions - Employees	-	111,457	(111,457)
Net Investment Income	-	1,239,586	(1,239,586)
Benefit Payments, including Refunds			-
of Employee Contributions	(308,370)	(308,370)	-
Other (Net Transfer)	-	(104,020)	104,020
			-
Net Changes	452,866	1,230,666	(777,800)
Balances at December 31, 2017	$ 9,364,193	$ 8,527,879	$ 836,314

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liabilities of the District, calculated using the a Single Discount Rate, as well as what the District's net pension liabilities would be if they were calculated using discount rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset)	$ 2,049,740	$ 836,314	$ (166,588)

9. EMPLOYEE RETIREMENT SYSTEM (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District recognized pension expense of $221,266. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 32,436	$ 57,822
Changes in assumptions	375	163,049
Net difference between projected and actual earnings on pension plan investments	238,601	554,104
Total deferred amounts to be recognized in pension expense in future periods	271,412	774,975
Contributions subsequent to the measurement date	146,275	-
Total	$ 417,687	$ 774,975

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Net Deferred Ouflows of Resources
2018	$ (158,743)
2019	(79,040)
2020	(127,254)
2021	(138,526)
2022	-
Thereafter	-
Total	$ (503,563)

10. OTHER POSTEMPLOYMENT BENEFITS

a. Teacher Health Insurance Security (THIS) Fund

Plan Description

The District participates in the THIS. The THIS is a cost-sharing, multiple-employer defined benefit post-employment healthcare plan (OPEB) that was established by the Illinois legislature for the benefit of Illinois public school teachers employed outside the City of Chicago. The THIS members are retirees of public schools who were certified educators or administrators. Eligibility is currently limited to former full-time employees, and others who were not full-time employees that meet certain requirements, and their dependents. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) (SEGIA) establishes the eligibility and benefit provisions of the plan.

The THIS issues a publicly available financial report that can be obtained at the website of the Illinois Auditor General: https://www.auditor.illinois.gov/Audit-Reports/ABC-List.asp. The current reports are listed under “Central Management Services”; prior reports are available under “Healthcare and Family Services”.

Benefits Provided

The THIS Fund provides medical, prescription, and behavioral health benefits, but it does not provide vision, dental or life insurance benefits to annuitants of the Teachers’ Retirement System (TRS). Annuitants not enrolled in Medicare may participate in the state administered participating provider option plan or choose from several managed care options. Annuitants who were enrolled in Medicare Parts A and B may be eligible to enroll in Medicare Advantage Plans.

Amendments to the plan can be made only by legislative action with the Governor’s approval. Effective July 1, 2012, in accordance with Executive Order 12-01, the plan is administered by the Illinois Department of Central Management Services (CMS) with the cooperation of TRS.

Contributions

The SEGIA requires that all active contributors to the TRS, who are not employees of a department, make contributions to the plan at a rate of 1.18% of salary and for every employer of a teacher to contribute an amount equal to 0.88% of each teacher’s salary. Additionally, the SEGIA requires the State to match the employees’ contribution on-behalf of the employer. The Department determines, by rule, the percentage required, which each year shall not exceed 105% of the percentage of salary actually required to be paid in the previous fiscal year. In addition, under the State Pension Funds Continuing Appropriations Act (40 ILCS 15/1.3), there is appropriated, on a continuing annual basis, from the General Revenue Fund, an account of the General Fund, to the State Comptroller for deposit in the THIS, an amount equal to the amount certified by the Board of Trustees of TRS as the estimated total amount of contributions to be paid under 5 ILCS 376/6.6(a) in that fiscal year.

The SEGIA requires that the Department’s Director determine the rates and premiums of annuitants and dependent beneficiaries and establish the cost-sharing parameters, as well as funding. Member premiums are set by this statute, which provides for a subsidy of either 50% or 75%, depending upon member benefit choices. Dependents are eligible for coverage, at a rate of 100% of the cost of coverage.

On-behalf contributions to THIS. The state of Illinois makes employer retiree health insurance contributions on behalf of the District. State contributions are intended to match contributions to THIS Fund from active members which were 1.18% of pay during the year ended June 30, 2018.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

State of Illinois contributions were $140,401 and the district recognized revenue and expenditures of this amount during the year.

Employer contributions to THIS Fund. The District also makes contributions to THIS Fund. The District THIS Fund contribution was 0.88% during the year ended June 30, 2018. For the year ended June 30, 2018, the District paid $104,706 to the THIS Fund, which was 100 percent of the required contribution. These contributions are deferred because they were paid after the June 30, 2017 measurement date.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability for its proportionate share of the net OPEB liability. The State's support and total are for disclosure purposes only. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	$	15,520,004
State's proportionate share of the net OPEB liability associated with the District		20,381,622
Total	$	35,901,626

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 June 30, 2016 and rolled forward to June 30, 2017. The District's proportion of the net OPEB liability was based on the District's share of contributions to TRS for the measurement year ended June 30, 2017, relative to the projected contributions of all participating TRS employers and the state during that period. At June 30, 2017, the District's proportion was 0.059808%, which was an increase of 0.008364% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of $1,456,659.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 8,791
Changes in assumptions	-	1,847,861
Net difference between projected and actual earnings on OPEB plan investments	-	171
Changes in proportion and differences between District contributions and proportionate share of contributions	1,972,817	-
Total deferred amounts to be recognized in OPEB expense in future periods	1,972,817	1,856,823
District contributions subsequent to the measurement date	104,706	-
Total	$ 2,077,523	$ 1,856,823

$104,706 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Net Deferred Outflows of Resources
2018	$ 17,801
2019	17,801
2020	17,801
2021	17,801
2022	17,844
2023	17,844
Thereafter	9,102
Total	$ 115,994

Actuarial Valuation Method

The actuarial valuation was based on the Entry Age Normal cost method. Under this method, the normal cost and actuarial accrued liability are directly proportional to the employee's salary. The normal cost rate equals the present value of future benefits at entry age divided by the present value of future salary at entry age. The normal cost at the member's attained age equals the normal cost rate at entry age multiplied by the salary at attained age. The actuarial accrued liability equals the present value of benefits at attained age less present value of future salaries at attained age multiplied by normal cost rate at entry age.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	Depends on service and ranges from 9.25% at 1 year of service to 3.25% at 20 or more years of service. Salary increase includes a 3.25% wage inflation assumption,
Investment rate of return	0.00%, net of OPEB plan investment expense, including inflation.
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.00% and 9.00% for non-Medicare costs and post-Medicare costs, respectively, and gradually decreases to an ultimate trend of 4.50%. Additional trend rate of 0.59% is added to non-Medicare costs on and after 2020 to account for Excise Tax.

Mortality rates for retirement and beneficiary annuitants were based on the RP-2014 White Collar Annuitant Mortality Table, adjusted for TRS experience. For disabled annuitants mortality rates were based on the RP-Disabled Annuitant table. Mortality rates for pre-retirement were based on the RP-2014 White Collar Table, All tables reflect future mortality improvements using Projection Scale MP-2014.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2014.

Discount rate

Projected benefit payments were discounted to their actuarial present value using a Single Discount Rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan’s fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bond with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). Since the THIS is financed on a pay-as-you-go basis, a discount rate consistent with the 20-year general obligation bond index has been selected. The discount rates are 2.85% as of June 30, 2016, and 3.56% as of June 30, 2017. The increase in the single discount rate from 2.85% to 3.56% caused the total OPEB liability to decrease by approximately $3.564 billion from 2016 to 2017.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the employer's proportionate share of the net OPEB liability to changes in the discount rate and healthcare cost trend rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 3.56%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
District's proportionate share of the net OPEB liability	$ 18,623,923	$ 15,520,004	$ 13,036,376

The following presents the District's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (a)	Healthcare Cost Trend Rate Assumptions	1% Increase (b)
District's proportionate share of the net OPEB liability	$ 12,526,233	$ 15,520,004	$ 19,817,056

(a) One percentage point decrease in healthcare trend rates are 7.00% in 2018 decreasing to an ultimate trend rate of 4.09% in 2025, for non-Medicare coverage, and 8.00% in 2018 decreasing to an ultimate trend rate of 3.50% in 2027 for Medicare coverage.
(b) One percentage point increase in healthcare trend rates are 9.00% in 2018 decreasing to an ultimate trend rate of 6.09% in 2025, for non-Medicare coverage, and 10.00% in 2018 decreasing to an ultimate trend rate of 5.50% in 2027 for Medicare coverage.

b. Retirees' Health Plan

Plan Description

The District administers a single-employer defined benefit healthcare plan, the "retiree Healthcare Benefit Program: or "the Plan". The plan provides healthcare insurance for eligible retirees and their dependents through the District's group health insurance plan, which covers both active and retired members. Benefit provisions are established by state law and through negotiations between the District and the unions representing District employees, which are renegotiated each bargaining period. As of June 30, 2018, all retirees are eligible for benefits pre and post-Medicare. The Plan does not issue a stand-alone financial report.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy

All plan funding is done on a pay-as-you go basis. Eligibility – Teachers hired prior to January 1, 2011 are eligible at the earliest of: 1. Age 55 with 20 years of service; 2. Age 60 with 10 years of service; or 3. Age 62 with 5 years of service. Teachers hired after January 1, 2011 are eligible at the earliest of: 1. Age 57 with 20 years of service; or 2. Age 62 with 10 years of service. Non-Teachers (Certified and Support Staff) are eligible at age 55 with 10 years of service. Surviving spouses of support staff are eligible to remain on the District's plan until age 65. Retired teachers are eligible for the Teachers' Retirement Insurance Program (TRIP) with the State of Illinois. Retirees are responsible for the portion of premium rates not covered by the District's health plan and are responsible for the full premium rate. For retired teachers, the District contributes the full premium to TRIP for the first two years after retirement. After two years, the teachers are responsible for the premium rates.

For fiscal year June 30, 2018, the District contributed $21,950 to the Plan; total retiree contributions were not determined.

Employees Covered by Benefit Terms

As of June 30, 2018, the following employees were covered by the benefit terms.

Retirees currently receiving benefits	1
Active employees	209
Total	210

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions

The following are the methods and assumptions used to determine the total OPEB liability at June 30, 2018:

Actuarial cost method	Entry Age Normal
Asset valuation method	N/A
Inflation	3.00%
Salary increases	4.0%, including inflation
Investment rate of return	N/A
Retirement age	Based on KPERS Local (with 100% retirement at age 65) and KPF actuarial valuation report for FYE December 31 ,2014 (no change since FYE 2012)
Mortality	SOA RPH-2017 Total Dataset Headcount-weighted Mortality fully generational using Scale MP-2017
Healthcare cost trend rates	Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.00%, and gradually decreases to an ultimate trend of 5.00%.

Discount Rate

The District does not have a dedicated Trust to pay the benefits of the Plan. Per GASB 75, this discount rate is a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The discount rate used is 2.98%, which is the S&P Municipal Bond 20 Year High-Grade Rate Index as of June 30, 2018.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in Net OPEB Liability

	Total OPEB Liability (A)	Plan Fiduciary Net Position (B)	Net OPEB Liability (A) - (B)
Balances at June 30, 2017	$ 392,425	$ -	$ 392,425
Changes for the year:			
Service Cost	21,992	-	21,992
Interest on Total OPEB Liability	12,179	-	12,179
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	(10,903)	-	(10,903)
Changes of Assumptions and Other Inputs	(12,093)	-	(12,093)
Contributions - Employer	-	-	-
Contributions - Employees	-	-	-
Net Investment Income	-	-	-
Benefit Payments	(6,642)	-	(6,642)
Other Changes	(110,255)	-	(110,255)
Net Changes	(105,722)	-	(105,722)
Balances at June 30, 2018	$ 286,703	$ -	$ 286,703

Sensitivity of the employer's share of the net OPEB liability to changes in the discount rate and healthcare cost trend rate

The following presents the District's net OPEB liability calculated using the discount rate of 2.98%, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate (2.98%)	1% Increase
Net OPEB liability	$ 310,837	$ 286,703	$ 264,340

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

	1% Decrease (a)	Healthcare Cost Trend Rate Assumptions	1% Increase (b)
Net OPEB liability	$ 253,445	$ 286,703	$ 326,156

(a) One percentage point decrease in healthcare trend rates are 7.00% in 2018 decreasing to an ultimate trend rate of 4.09% in 2025, for non-Medicare coverage, and 8.00% in 2018 decreasing to an ultimate trend rate of 3.50% in 2027 for Medicare coverage.
(b) One percentage point increase in healthcare trend rates are 9.00% in 2018 decreasing to an ultimate trend rate of 6.09% in 2025, for non-Medicare coverage, and 10.00% in 2018 decreasing to an ultimate trend rate of 4.50% in 2027 for Medicare coverage.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $21,950. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 9,903
Changes in assumptions	3,149	114,277
Net difference between projected and actual earnings on OPEB plan investments	-	-
Total	$ 3,149	$ 124,180

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in OPEB expense as follows:

Year Ending June 30	Net Deferred Inflows of Resources
2019	$ (12,221)
2020	(12,221)
2021	(12,221)
2022	(12,221)
2023	(12,221)
Thereafter	(59,926)
Total	$ (121,031)

11. JOINT AGREEMENT

The District is a member of Lincoln-Way Area Special Education Joint Agreement District 843, a joint agreement that provides certain special education services to residents of five school districts. The District believes that because it does not control the selection of the governing authority, and because of the control over employment of management personnel, operations, scope of public service, and special financing relationships exercised by the joint agreement governing board, these are not included as component units of the District.

Audited financial statements are prepared annually for the Joint Agreement and can be obtained from the Director of the Joint Agreement.

12. CONTINGENCIES

The District has received funding from state and federal grants in the current and prior years which are subject to audits by the granting agencies. The District believes any adjustments that may arise from these audits will be insignificant to District operations.

13. CHANGE IN ACCOUNTING PRINCIPLE

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. Statement No. 75 expands disclosures related to postemployment benefits other than pensions and requires the District to report the net other postemployment benefit liability in the statement of net position. The adoption of this statement had no effect on any of the District's fund balances but reduced the District's governmental activities net position by $14,450,664 as of July 1, 2017.