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SPECIAL EDUCATION DISTRICT
OF McHENRY COUNTY
STATE OF ILLINOIS

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

eder, casella & co.

SPECIAL EDUCATION DISTRICT OF McHENRY COUNTY

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INDEPENDENT AUDITOR'S OPINION

To the Board of Education
Special Education District of McHenry County
Woodstock, Illinois

We have audited the accompanying basic financial statements of

Special Education District of McHenry County

as of and for the year ended June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Illinois State Board of Education as described in Note 2. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2, the financial statements are prepared by Special Education District of McHenry County on the basis of the financial reporting provisions of the Illinois State Board of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of Illinois State Board of Education. Also as described in Note 2, Special Education District of McHenry County prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Special Education District of McHenry County as of June 30, 2018, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Cash Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of Special Education District of McHenry County as of June 30, 2018, and the revenues it received and expenditures it paid for the year then ended, in accordance with the financial reporting provisions of the Illinois State Board of Education as described in Note 2.

Change in Accounting Principle

As discussed in Note 14 to the financial statements, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No 85, *Omnibus* 2017. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Special Education District of McHenry County's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

Such information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the average daily attendance figure included in the computation of operating expense per pupil and per capita tuition charges, 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 information and Schedule of Expenditures of Federal Awards 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 September 28, 2018 on our consideration of Special Education District of McHenry County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Special Education District of McHenry County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Special Education District of McHenry County's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of management, the Board of Education, others within 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.

Eder, Casella & Co.

EDER, CASELLA & CO.
Certified Public Accountants

McHenry, Illinois
September 28, 2018

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

To the Board of Education
Special Education District of McHenry County
Woodstock, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of

Special Education District of McHenry County

as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Special Education District of McHenry County's basic financial statements, and have issued our report thereon dated September 28, 2018. Our opinion was adverse because the financial statements are not prepared in accordance with generally accepted accounting principles. However, the financial statements were found to be fairly stated on the cash basis of accounting, in accordance with regulatory reporting requirements established by the Illinois State Board of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Special Education District of McHenry County'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 Special Education District of McHenry County's internal control. Accordingly, we do not express an opinion on the effectiveness of Special Education District of McHenry County's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Special Education District of McHenry County'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.

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.

Eder, Casella & Co.
EDER, CASELLA & CO.
Certified Public Accountants

McHenry, Illinois
September 28, 2018

BASIC FINANCIAL STATEMENTS

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS - REGULATORY BASIS
ALL FUNDS AND ACCOUNT GROUPS
AT JUNE 30, 2018

	EDUCATIONAL	OPERATIONS AND MAINTENANCE	DEBT SERVICES	TRANSPOR- TATION	AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	TOTAL (MEMORANDUM ONLY)
ASSETS								
Cash and Cash Equivalents	$ 3,328,468	$ 1,242,306	$ 10,504	$ 10,000	$ 25,085	$ -	$ -	$ 4,616,363
Capital Assets								
Land	-	-	-	-	-	22,338	-	22,338
Building and Building Improvements	-	-	-	-	-	3,135,708	-	3,135,708
Capitalized Equipment	-	-	-	-	-	2,377,598	-	2,377,598
Amount Available in Debt Services Fund	-	-	-	-	-	-	10,504	10,504
Amount to be Provided for Payment on Long-Term Debt	-	-	-	-	-	-	(10,504)	(10,504)
Total Assets	$ 3,328,468	$ 1,242,306	$ 10,504	$ 10,000	$ 25,085	$ 5,535,644	$ -	$ 10,152,007
LIABILITIES AND FUND BALANCE								
LIABILITIES								
Current Liabilities								
Due to Activity Fund Organizations	$ -	$ -	$ -	$ -	$ 25,085	$ -	$ -	$ 25,085
Total Current Liabilities	$ -	$ -	$ -	$ -	$ 25,085	$ -	$ -	$ 25,085
Long-Term Liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Liabilities	$ -	$ -	$ -	$ -	$ 25,085	$ -	$ -	$ 25,085
FUND BALANCE								
Investment in General Fixed Assets	$ -	$ -	$ -	$ -	$ -	$ 5,535,644	$ -	$ 5,535,644
Fund Balance								
Unreserved								
Undesignated	3,328,468	1,242,306	10,504	10,000	-	-	-	4,591,278
Total Fund Balance	$ 3,328,468	$ 1,242,306	$ 10,504	$ 10,000	$ -	$ 5,535,644	$ -	$ 10,126,922
Total Liabilities and Fund Balance	$ 3,328,468	$ 1,242,306	$ 10,504	$ 10,000	$ 25,085	$ 5,535,644	$ -	$ 10,152,007

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF REVENUE RECEIVED, EXPENDITURES DISBURSED, OTHER FINANCING SOURCES (USES), AND CHANGES IN FUND BALANCES -
ALL FUNDS EXCEPT AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	EDUCATIONAL	OPERATIONS AND MAINTENANCE	DEBT SERVICES	TRANSPOR-TATION	TOTAL (MEMORANDUM ONLY)
REVENUE RECEIVED					
Local Sources	$ 977,021	$ 224,476	$ -	$ -	$ 1,201,497
Flow-Through Sources	8,103,774	-	-	-	8,103,774
State Sources	170,420	-	-	-	170,420
Federal Sources	61,472	-	-	-	61,472
On-Behalf Payments	530,696	-	-	-	530,696
	$ 9,843,383	$ 224,476	$ -	$ -	$ 10,067,859
EXPENDITURES DISBURSED					
Instruction	$ 800,169	$ -	$ -	$ -	$ 800,169
Support Services	554,068	168,832	-	-	722,900
Payments to Other Districts and Governmental Units	8,291,537	-	-	-	8,291,537
Debt Services	-	-	42,089	-	42,089
On-Behalf Payments	530,696	-	-	-	530,696
	$ 10,176,470	$ 168,832	$ 42,089	$ -	$ 10,387,391
EXCESS OR (DEFICIENCY) OF REVENUE RECEIVED OVER EXPENDITURES DISBURSED	$ (333,087)	$ 55,644	$ (42,089)	$ -	$ (319,532)
FUND BALANCE - JULY 1, 2017	3,661,555	1,186,662	52,593	10,000	4,910,810
FUND BALANCE - JUNE 30, 2018	$ 3,328,468	$ 1,242,306	$ 10,504	$ 10,000	$ 4,591,278

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF REVENUE RECEIVED
ALL FUNDS EXCEPT AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	EDUCATIONAL	OPERATIONS AND MAINTENANCE	DEBT SERVICES	TRANSPOR-TATION	TOTAL (MEMORANDUM ONLY)
REVENUE RECEIVED					
Local Sources					
Tuition					
Adult Tuition from Pupils or Parents (In State)	$ 1,140	$ -	$ -	$ -	$ 1,140
Interest on Investments	-	518	-	-	518
Services Provided Other Districts	276,935	-	-	-	276,935
Refund of Prior Years' Expenditures	1,513	-	-	-	1,513
Payments from Other Districts	624,453	-	-	-	624,453
Other Local Revenues	72,980	223,958	-	-	296,938
Total Local Sources	$ 977,021	$ 224,476	$ -	$ -	$ 1,201,497
Flow-Through					
Flow-Through from Federal Sources	$ 8,103,774	$ -	$ -	$ -	$ 8,103,774
Total Flow-Through	$ 8,103,774	$ -	$ -	$ -	$ 8,103,774
State Sources					
Restricted Grants-In-Aid					
Special Education					
Personnel	$ 170,420	$ -	$ -	$ -	$ 170,420
Total State Sources	$ 170,420	$ -	$ -	$ -	$ 170,420
Federal Sources					
Restricted Grants-In-Aid Received Directly from the					
Federal - Special Education					
IDEA - Flow Through/Low Incidence	$ 35,820	$ -	$ -	$ -	$ 35,820
Medicaid Matching Funds - Administrative Outreach	3,783	-	-	-	3,783
Medicaid Matching Funds - Fee-For-Service Program	21,869	-	-	-	21,869
Total Federal Sources	$ 61,472	$ -	$ -	$ -	$ 61,472
Total Direct Revenue	$ 9,312,687	$ 224,476	$ -	$ -	$ 9,537,163

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF EXPENDITURES DISBURSED - BUDGET TO ACTUAL
EDUCATIONAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL
EXPENDITURES DISBURSED		
Instruction		
Regular Programs		
Supplies and Materials	$ 500	$ 2,091
	$ 500	$ 2,091
Special Education Programs		
Salaries	$ 156,500	$ 111,937
Employee Benefits	128,298	72,595
Purchased Services	65,040	65,037
Other Objects	2,000	1,441
	$ 351,838	$ 251,010
Truant Alternative and Optional Programs		
Salaries	$ 284,708	$ 273,507
Employee Benefits	85,847	95,426
Purchased Services	169,845	151,107
Supplies and Materials	24,000	27,028
Capital Outlay	4,000	-
	$ 568,400	$ 547,068
Total Instruction	$ 920,738	$ 800,169
Support Services		
Pupils		
Attendance and Social Work Services		
Salaries	$ 93,593	$ 82,217
Employee Benefits	11,361	10,581
Purchased Services	1,300	275
Supplies and Materials	200	-
	$ 106,454	$ 93,073
Health Services		
Salaries	$ 6,600	$ -
	$ 6,600	$ -
Psychological Services		
Salaries	$ 1,250	$ 1,250
	$ 1,250	$ 1,250
Speech Pathology and Audiology Services		
Salaries	$ 122,959	$ 79,966
Employee Benefits	13,235	11,883
Purchased Services	59,908	53,787
Supplies and Materials	5,000	3,153
Capital Outlay	9,000	8,146
	$ 210,102	$ 156,935
Total Support Services - Pupils	$ 324,406	$ 251,258
Instructional Staff		
Improvement of Instruction Services		
Purchased Services	$ 8,450	$ 14,703
	$ 8,450	$ 14,703
Total Support Services - Instructional Staff	$ 8,450	$ 14,703

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF EXPENDITURES DISBURSED - BUDGET TO ACTUAL
EDUCATIONAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL
EXPENDITURES DISBURSED (Continued)		
Support Services (Continued)		
General Administration		
Executive Administration Services		
Salaries	$ 90,000	$ 90,000
Employee Benefits	35,852	32,949
Purchased Services	31,400	24,936
Supplies and Materials	2,600	1,431
Other Objects	600	570
	$ 160,452	$ 149,886
Total Support Services - General Administration	$ 160,452	$ 149,886
Business		
Fiscal Services		
Salaries	$ 37,672	$ 37,672
Employee Benefits	52,792	52,336
Purchased Services	12,000	13,522
Supplies and Materials	1,200	817
	$ 103,664	$ 104,347
Internal Services		
Purchased Services	$ 1,000	$ 458
Supplies and Materials	1,500	955
	$ 2,500	$ 1,413
Total Support Services - Business	$ 106,164	$ 105,760
Central		
Information Services		
Purchased Services	$ 9,000	$ 11,481
Supplies and Materials	1,500	875
Capital Outlay	-	1,719
	$ 10,500	$ 14,075
Staff Services		
Purchased Services	$ 18,584	$ 18,386
	$ 18,584	$ 18,386
Total Support Services - Central	$ 29,084	$ 32,461
Total Support Services	$ 628,556	$ 554,068
Payments to Other Districts and Governmental Units		
Payments to Other Governmental Units (In-State)		
Payments for Special Education Programs		
Purchased Services	$ 6,750	$ 6,753
Other Objects	8,859,779	-
	$ 8,866,529	$ 6,753
Other Payments to In-State Governmental Units		
Purchased Services	$ 114,000	$ -
	$ 114,000	$ -
Total Payments to Other Governmental Units (In-State)	$ 8,980,529	$ 6,753

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF EXPENDITURES DISBURSED - BUDGET TO ACTUAL
EDUCATIONAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL
EXPENDITURES DISBURSED (Continued)		
Payments to Other Districts and Governmental Units (Continued)		
Payments to Other Governmental Units (In-State) (Continued)		
Payments to Other Districts and Governmental Units-Transfers (In-State)		
Other Objects		
Payments for Special Education Programs	$ -	$ 8,284,784
Total Payments to Other Districts and Governmental Units-Transfers (In-State)	$ -	$ 8,284,784
Total Payments to Other Districts and Governmental Units	$ 8,980,529	$ 8,291,537
Total Direct Expenditures	$ 10,529,823	$ 9,645,774

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF EXPENDITURES DISBURSED - BUDGET TO ACTUAL
OPERATIONS AND MAINTENANCE FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL
EXPENDITURES DISBURSED		
Support Services		
Operation and Maintenance of Plant Services		
Purchased Services	$ 112,841	$ 117,765
Supplies and Materials	55,500	51,067
Capital Outlay	50,000	-
	$ 218,341	$ 168,832
Total Support Services - Business	$ 218,341	$ 168,832
Total Support Services	$ 218,341	$ 168,832
Total Direct Expenditures	$ 218,341	$ 168,832

The Notes to Financial Statements are an integral part of this statement.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
STATEMENT OF EXPENDITURES DISBURSED - BUDGET TO ACTUAL
DEBT SERVICES FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL
EXPENDITURES DISBURSED		
Debt Services		
Interest		
Other Interest on Long-Term Debt		
Other Objects	$ 6,522	$ 1,077
Total Debt Services - Interest	$ 6,522	$ 1,077
Debt Services - Payment of Principal on Long-Term Debt		
Other Objects	$ 35,568	$ 41,012
Total Debt Services - Payment of Principal on Long-Term Debt	$ 35,568	$ 41,012
Total Debt Services	$ 42,090	$ 42,089
Total Direct Expenditures	$ 42,090	$ 42,089

The Notes to Financial Statements are an integral part of this statement.

NOTE 1 - DESCRIPTION OF JOINT AGREEMENT

The Special Education District of McHenry County (SEDOM) is a joint agreement district organized under Section 10-22.31 of the Illinois School Code for the purpose of providing education and services for children with disabilities of its member school districts as defined and mandated by the provisions of the Illinois School Code.

Public school districts located all, or in part, in McHenry County, Illinois are eligible for membership.

The following districts are members of SEDOM at June 30, 2018:

District No.	District Name
2	Nippersink
3	Fox River Grove
12	Johnsburg
15	McHenry Elementary plus Junior High
18	Riley
19	Alden-Hebron
26	Cary Elementary
36	Harrison
46	Prairie Grove
47	Crystal Lake Elementary
50	Harvard
154	Marengo High
155	Crystal Lake - Cary Grove
156	McHenry High
157	Richmond Burton High
158	Huntley
165	Marengo-Union

The Governing Board of Directors consists of one board of education member from each participating district. The Governing Board of Directors meets generally twice a year to amend the Articles of Joint Agreement, elect Executive Board Members, and approve budgets.

The Executive Board shall be chosen from the members of the SEDOM Governing Board of Directors, from the members of the participating district boards of education, or from the Superintendents of Schools of the member districts and shall consist of seven (7) members, at least two (2) of these from high school or unit districts, at least two (2) of these from elementary school districts, and at least one (1) board of education member.

Day to day operations of SEDOM are administered by the Executive Director who reports to the Executive Board and the Governing Board of Directors. His/her specific duties and responsibilities are established by the Executive Board.

If available, each member district may provide at least one classroom for SEDOM programs and is to be reimbursed for expenses incurred in providing each classroom at a rate determined by the Executive Board.

Programs and services supplied by SEDOM are those established by the Board of Directors. Such programs are intended to be only those that the member districts cannot, or find difficult to, provide individually. Services provided include instructional, support, diagnostic, therapeutic, administrative and transportation.

Income is derived from State and Federal Aid, administrative assessments, tuition, and fees for services based on cost as determined by the Executive Board.

Procedures for withdrawal of a member board of education from the Joint Agreement will be in accordance with the Illinois School Code (See Sections 5/10-22.31 and 5/7-6) and consistent with the requirements and rules adopted by the Illinois State Board of Education.

The Joint Agreement may be dissolved by the approval of a written resolution by all of the member boards of education. For dissolution to take effect, all such resolutions must be adopted within a twelve-month period. Dissolution will be effective on July 1 following the approval of a written resolution by all of the member boards, or on such other July 1 as all of the member boards' resolutions authorize.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SEDOM's accounting policies conform to the cash basis of accounting as defined by the Illinois State Board of Education Audit Guide.

A. *Basis of Presentation – Fund Accounting*

The accounts of SEDOM are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and liabilities arising from cash transactions, fund balance, revenue received, and expenditures disbursed. SEDOM maintains individual funds required by the State of Illinois.

These funds are grouped as required for reports filed with the Illinois State Board of Education. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following funds and account groups are used by SEDOM:

<u>Educational Fund</u> – The Educational Fund is the general operating fund of SEDOM. It is used to account for all transactions that are not specifically covered in another fund. Certain expenditures that must be charged to this fund include the direct costs of instructional programs, health and attendance services, lunch programs, all costs of administration, and related insurance costs. Certain revenues that must be credited to this fund include tuition and services provided to other LEAs.

<u>Operations and Maintenance Fund</u> – The Operations and Maintenance Fund is used to account for costs of maintaining, improving, or repairing school buildings and property, renting buildings and property for school purposes, or paying of premiums for insurance on school buildings. Revenue received for operations and maintenance purposes from any source must be deposited into this fund.

<u>Debt Services Fund</u> – The Debt Services Fund is used to account for all principal, interest, and administrative costs associated with the bond issuance to fund the replacement of the roof at SEDOM Center as well accounting for capital leases and other long-term debt. Operations of this fund are generally financed by billings assessed on the member school districts or transfers from other funds.

<u>Transportation Fund</u> – The Transportation Fund is used to account for the costs associated with transporting pupils for any purpose. Revenue received for transportation purposes from any source must be deposited into this fund.

<u>Agency Fund</u> – The Agency Fund is used to account for Student Activity Funds and Convenience Accounts, which are assets held by SEDOM as an agent for the students and teachers. This fund is custodial in nature and does not involve the measurement of the results of operations. The amounts due to the Agency Fund organizations are equal to the assets.

General Fixed Assets Account Group – The General Fixed Assets Account Group is used to record physical assets of SEDOM that have a long-term (i.e. more than one year) period of usefulness.

General Long-Term Debt Account Group – The General Long-Term Debt Account Group is used to record total long-term debt of SEDOM.

Measurement Focus

The financial statements of all funds, except the Agency Fund and two account groups, focus on the measurement of spending or "financial flow" and the determination of changes in financial position rather than upon net income determination. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Fund operating statements present increases (cash receipts and other financing sources) and decreases (cash disbursements and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

General Fixed Assets and General Long-Term Debt Account Groups

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Fixed assets used in operations are accounted for in the General Fixed Assets Account Group rather than in the funds. Long-term liabilities expected to be financed from the funds are accounted for in the General Long-Term Debt Account Group, not in the funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

B. *Basis of Accounting*

Basis of accounting refers to when revenues received and expenditures disbursed are recognized in the accounts and how they are reported on the financial statements. SEDOM maintains its accounting records for all funds and account groups on the cash basis of accounting under guidelines prescribed by the Illinois State Board of Education. Accordingly, revenues are recognized and recorded in the accounts when cash is received. In the same manner, expenditures are recognized and recorded upon the disbursement of cash. Assets of a fund are only recorded when a right to receive cash exists which arises from a previous cash transaction. Liabilities of a fund, similarly, result from previous cash transactions.

Cash basis financial statements omit recognition of receivables and payables and other accrued and deferred items that do not arise from previous cash transactions.

Proceeds from sales of bonds are included as other financing sources in the appropriate fund on the date received. Related bond principal payable in the future is recorded at the same time in the General Long-Term Debt Account Group.

If SEDOM utilized accounting principles generally accepted in the United States of America, the basic financial statements would be replaced with government-wide financial statements and fund financial statements. The government-wide financial statements would be presented on the accrual basis of accounting. The fund financial statements would use the modified accrual basis of accounting.

C. *Budgets and Budgetary Accounting*

The budget for all funds is prepared on the cash basis of accounting which is the same basis that is used in financial reporting. This allows for comparability between budget and actual amounts. This is an acceptable method in accordance with Chapter 105, Section 5/17-1 of the Illinois Compiled Statutes. The original budget was passed on August 20, 2017.

For each fund, total fund disbursements may not legally exceed the budgeted disbursements. The budget lapses at the end of each fiscal year.

SEDOM follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the Director of Business Services submits to the Executive Board a proposed operating budget for the fiscal year commencing on that date. The operating budget includes proposed expenditures and the means of financing them.

2. A public hearing is conducted at a public meeting to obtain member districts' comments.

3. Prior to September 1, the budget is legally adopted through passage of a resolution by the Governing Board.

4. Formal budgetary integration is employed as a management control device during the year.

5. The Executive Board may make transfers between the various items in any fund not exceeding in the aggregate 10% of the total of such fund as set forth in the budget.

6. The Governing Board may amend the budget (in other ways) by the same procedures required of its original adoption.

D. *Cash and Cash Equivalents*

Separate bank accounts are not maintained for all SEDOM funds. Instead, the funds maintain their balances in common accounts, with accounting records being maintained to show the portion of the common bank account balances attributable to each participating fund.

Occasionally certain of the funds participating in the common bank accounts will incur overdrafts (deficits) in the account. Such overdrafts in effect constitute cash borrowed from other SEDOM funds and are, therefore, interfund loans which have not been authorized by board action.

No SEDOM fund had a cash overdraft at June 30, 2018.

SEDOM has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

E. *Investments*

Investments are stated at the lower of cost or market. Gains or losses on the sale of investments are recognized upon realization.

F. *Inventories*

No inventory accounts are maintained to reflect the values of resale or supply items on hand. Instead, the costs of such items are charged to expense when purchased. The value of SEDOM's inventories is not deemed to be material.

G. *Interfund Activity*

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate. All other interfund transactions are treated as transfers.

H. *General Fixed Assets*

General fixed assets have been acquired for general governmental purposes. At the time of purchase, assets are recorded as disbursements in the funds for which the asset was purchased and capitalized at cost in the General Fixed Assets Account Group. Donated general fixed assets are stated at estimated fair market value as of the date of acquisition. Depreciation accounting is not considered applicable. SEDOM's capitalization threshold for fixed assets is $500. The policy for establishing the useful lives of fixed assets is established by the Illinois State Board of Education.

I. *Governmental Fund Balances*

Governmental fund balances are reported as "reserved" because they are legally segregated for a specific future use. The remaining balances are "unreserved" fund balances. From time to time, the Board agrees to set aside or "designate" resources for future uses – such as for specific capital projects. These unreserved, designated balances are based on management's tentative plans and can be changed.

J. *Total Memorandum Only*

The "Total Memorandum Only" column represents the aggregation (by addition) of the line item amounts reported for each fund and account group. No consolidating or other eliminations were made in arriving at the totals; thus they do not present consolidated information. These totals are presented only to facilitate financial analysis and are not intended to reflect the financial position or results of operations of SEDOM as a whole.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits with financial institutions are fully insured or collateralized by securities held in SEDOM's name.

SEDOM is allowed to invest in securities as authorized by the School Code of Illinois, Chapter 85, Sections 902 and 906; and Chapter 122, Section 8-7.

Investments

As of June 30, 2018, SEDOM had the following investments and maturities:

		Investment Maturities (in Years)
Investment	Fair Value	Less Than 1
State Investment Pool	$ 44,131	$ 44,131

The fair value of investments in the State Investment Pool is the same as the value of pool shares. The State Investment Pool is not SEC-registered, but does have regulatory oversight through the State of Illinois.

Credit Risk. State Law limits investments based on credit risk. SEDOM has an investment policy that would further limit its investment choices. As of June 30, 2018, SEDOM's investments were rated as follows:

Investment	Credit Rating	Rating Source
State Investment Pool	AAAm	Standard and Poor's

NOTE 4 - FAIR VALUE MEASUREMENT

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:

- State Investment Pools of $44,131 are valued using quoted market prices (Level 1 inputs).

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Land	$ 22,338	$ -	$ -	$ 22,338
Building and Building Improvements	3,218,517	-	82,809	3,135,708
Capitalized Equipment	2,367,733	9,865	-	2,377,598
	$ 5,608,588	$ 9,865	$ 82,809	$ 5,535,644

NOTE 6 - CHANGES IN GENERAL LONG-TERM DEBT

Changes in general long-term debt are summarized as follows:

	Balance July 1, 2017	Additions	Retirement	Balance June 30, 2018
Long-Term Debt				
Bonds Payable				
Special Education Bond Series 2007	$ 41,012	$ -	$ 41,012	$ -
Total Long-Term Debt Payable	$ 41,012	$ -	$ 41,012	$ -

Long-term debt consisted of the following at June 30, 2018:

	Maturity Date	Interest Rate	Face Amount	Carrying Amount
Special Education Bonds Dated 10/24/07	11/1/2017	5.25%	$ 647,800	$ -

NOTE 7 - DEFICIT FUND BALANCE

At June 30, 2018 no fund had a deficit fund balance.

NOTE 8 - OVEREXPENDITURE OF BUDGET

For the year ended June 30, 2018, no funds had expenditures that exceeded the budget.

NOTE 9 - OPERATING LEASES

The District leases the use of the SEDOM Center building to the School of Expressive Arts and Learning, Inc. under operating leases.

Lease revenue for the fiscal year ended June 30, 2018 was $166,670. Annual lease receipts required under the lease agreements are as follows:

Year Ending June 30	Total
2019	$ 200,000
2020	200,000
	$ 400,000

NOTE 10 - RETIREMENT FUND COMMITMENTS

A. *Teachers' Retirement System of the State of Illinois*

General Information About the Pension Plan

Plan Description

The District participates in the Teachers' Retirement System of the State of Illinois (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 http://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 ten 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 ten 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% of final average salary up to a maximum of 75% with 34 years of service. Disability and death benefits are also provided.

Tier II members qualify for retirement benefits at age 67 with ten years of service, or a discounted annuity can be paid at age 62 with ten 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% 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 3% of the original benefit or ½% 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.

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 $485,078 in pension contributions from the State of Illinois.

2.2 Formula Contributions. Employers contribute 0.58% of total creditable earnings for the 2.2 formula change. The contribution rate is specified by statute. Contributions for the year ended June 30, 2018 were $2,683.

Federal and Special Trust Fund Contributions. When TRS members are paid from federal and special trust funds administered by the employer, there is a statutory requirement for the employer 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 District 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 federal and special trust funds that required District contributions of $0.

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 employer is required to make a one-time contribution to TRS for members retiring under the 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 District paid $0 to TRS for employer ERO contributions for retirements that occurred before July 1, 2016.

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 $0 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 has 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 District's 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 follows below:

District's proportionate share of the net pension liability	$	71,597
State's proportionate share of the net pension liability associated with the District		4,928,897
Total	$	5,000,494

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 contributions of all participating TRS employers and the State during that period. At June 30, 2017, the District's proportion was 0.0000937%, which was a decrease of .00003285 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $485,078 and revenue of $485,078 for support provided by the State. At June 30, 2018, the deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Outflows of Resources
Differences between expected and actual experience	$ 778	$ (33)	$ 745
Net difference between projected and actual earnings on pension investments	49	-	49
Changes of assumptions	4,779	(2,057)	2,722
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(238,258)	(238,258)
Employer contributions subsequent to the measurement date	2,683	-	2,683
	$ 8,289	$ (240,348)	$ (232,059)

$2,683 of deferred outflows of resources related to pensions results from employer contributions subsequent to the measurement date. Other deferred outflows of resources and deferred inflows of resources related to pensions will be part of the pension expense in future years as follows:

Year Ending June 30	
2019	$ (117,799)
2020	(64,694)
2021	(39,051)
2022	(12,521)
2023	(678)
	$ (234,743)

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%
Salary Increases	varies by amount of service credit
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

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. equities 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%
Total	100.0%	

Discount Rate

At June 30, 2017, the discount rate used to measure total pension liability was 7.00%, which was a change from the June 30, 2016 rate of 6.83%. 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%. The discount rate was lower than the actuarially-assumed rate of return on investments that year because TRS's fiduciary net position and the subsidy provided by Tier II were not sufficient to cover all projected benefit payments.

Sensitivity of the District'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%
Employer's proportionate share of the net pension liability	$ 87,966	$ 71,597	$ 58,189

TRS Fiduciary Net Position

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*

Plan Description

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 managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of a multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the "Benefits Provided" section of this document. Details of all benefits are available from IMRF. 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 Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. That report is available for download at www.imrf.org.

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).

All three IMRF benefit plans have two tiers. Employees hired ***before*** January 1, 2011 are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last ten years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

Employees hired ***on or after*** January 1, 2011 are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with ten years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last ten years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the *lesser* of:

- 3% of the original pension amount, or
- 1/2 of the increase in the Consumer Price Index of the original pension amount.

Employees Covered by Benefit Terms

All appointed employees of a participating employer who are employed in a position normally requiring 600 hours (1,000 hours for certain employees hired after 1981) or more of work in a year are required to participate. At December 31, 2017, the measurement date, the District's membership consisted of:

Retirees and beneficiaries currently receiving benefits	214
Inactive plan members entitled to but not yet receiving benefits	290
Active plan members	5
Total	509

Contributions

As set by statute, the District's Regular Plan Members are required to contribute 4.5% 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 annual contribution rate for calendar year 2017 was 89.98%. For the fiscal year ended June 30, 2018, the District contributed $162,020 to the plan. The District also 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 IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Net Pension Liability

The components of the net pension liability of the IMRF as of December 31, 2017, calculated in accordance with GASB Statement No. 68, were as follows:

Total Pension Liability	$	19,591,472
IMRF Fiduciary Net Position		19,126,320
District's Net Pension Liability		465,152
IMRF Fiduciary Net Pension as a Percentage of the Total Pension Liability		97.63%

See the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios in the Required Supplementary Information following the notes to the financial statements for additional information related to the funded status of the plan.

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of December 31, 2017 using the following actuarial methods and assumptions:

Assumptions	
Inflation	2.50%
Salary Increases	3.39% - 14.25% including inflation
Interest Rate	7.50%
Asset Valuation Method	Market value of assets
Projected Retirement Age	Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2017 valuation according to an experience study from years 2014 to 2016.

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 adjustments 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.

Long-Term Expected Rate of Return

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 to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table as of December 31, 2017:

Asset Class	Target Allocation	Projected Return
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%	
Private Equity		7.35%
Hedge Funds		5.05%
Commodities		2.65%
Cash	1.0%	2.25%
	100.0%	

Single Discount Rate

The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer 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).

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

Changes in the Net Pension Liability

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Position Liability (A)-(B)
Balances at December 31, 2016	$ 22,901,389	$ 19,491,474	$ 3,409,915
Changes for the year:			
Service Cost	$ 37,990	$ -	$ 37,990
Interest on the Total Pension Liability	1,676,264	-	1,676,264
Differences Between Expected and Actual Experience of the Total Pension Liability	(3,288,941)	-	(3,288,941)
Assumption Changes	(594,826)	-	(594,826)
Contributions - Employer	-	161,379	(161,379)
Contributions - Employee	-	10,977	(10,977)
Net Investment Income	-	3,475,463	(3,475,463)
Benefit Payments, including Refunds of Employee Contributions	(1,140,404)	(1,140,404)	-
Other (Net Transfer)	-	(2,872,569)	2,872,569
Net Changes	$ (3,309,917)	$ (365,154)	$ (2,944,763)
Balances at December 31, 2017	$ 19,591,472	$ 19,126,320	$ 465,152

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

The following presents the plan's net pension liability, calculated using a Single Discount Rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher:

	1% Lower 6.50%	Current Discount Rate 7.50%	1% Higher 8.50%
Net Pension Liability/(Asset)	$ 2,699,478	$ 465,152	$ (1,369,176)

Pension Expense/(Income), Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District's pension expense/(income) is $(765,808). At June 30, 2018, the District's deferred outflows of resources and deferred inflows of resources related to pension from the following sources were as follows:

Expense in Future Periods	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 558,129	$ (1,726,101)	$ (1,167,972)
Total deferred amounts to be recognized in pension expense in future periods	$ 558,129	$ (1,726,101)	$ (1,167,972)
Pension contributions made subsequent to the measurement date	67,089	-	67,089
Total deferred amounts related to pensions	$ 625,218	$ (1,726,101)	$ (1,100,883)

Deferred outflows of resources and deferred inflows of resources related to pensions will be part of the pension expense in future years as follows:

Year Ending December 31	Net Deferred Outflows of Resources
2018	$ (140,052)
2019	(181,368)
2020	(415,026)
2021	(431,526)
2022	-
Thereafter	-
	$ (1,167,972)

C. *Social Security*

Employees not qualifying for coverage under the Teachers' Retirement System of the State of Illinois or the Illinois Municipal Retirement Fund are considered "non-participating employees". These employees and those qualifying for coverage under the Illinois Municipal Retirement Fund are covered under Social Security. SEDOM paid the total required contribution for the current fiscal year.

NOTE 11 - POST EMPLOYMENT BENEFIT COMMITMENTS

Teacher Health Insurance Security Fund (THIS)

General Information About the OPEB Plan

Plan Description

The District participates in the Teacher Health Insurance Security (THIS) Fund, a cost-sharing, multiple-employer defined benefit post-employment healthcare plan that was established by the Illinois legislature for the benefit of retired Illinois public school teachers employed outside the city of Chicago. 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 are enrolled in Medicare Parts A and B may be eligible to enroll in a Medicare Advantage plan.

The publicly available financial report of the THIS Fund may be found on the website of the Illinois Auditor General (http://www.auditor.illinois.gov/Audit-Reports/ABC-List.asp). The current reports are listed under "Central Management Services" (http://www.auditor.illinois.gov/Audit-Reports/CMS-THISF.asp). Prior reports are available under "Healthcare and Family Services" (http://www.auditor.illinois.gov/Audit-Reports/HEALTHCARE-FAMILY-SERVICES-Teacher-Health-Ins-Sec-Fund.asp).

Benefits Provided

The State of Illinois offers comprehensive health plan options, all of which include prescription drug and behavioral health coverage. The State of Illinois offers TCHP, HMO, and OAP plans.

- Teachers' Choice Health Plan (TCHP) benefit recipients can choose any physician or hospital for medical services; however, benefit recipients receive enhanced benefits, resulting in lower out-of-pocket costs, when receiving services from a TCHP in-network provider. TCHP has a nationwide network and includes CVS/Caremark for prescription drug benefits and Magellan Behavioral Health for behavioral health services.
- Health Maintenance Organizations (HMO) benefit recipients are required to stay within the health plan provider network. No out-of-network services are available. Benefit recipients will need to select a primary care physician (PCP) from a network of participating providers. The PCP will direct all healthcare services and make referrals to specialists and hospitalization.
- Open Access Plan (OAP) benefit recipients will have three tiers of providers from which to choose to obtain services. The benefit level is determined by the tier in which the healthcare provider is contracted.
    - Tier I offers a managed care network which provides enhanced benefits and operates like an HMO.
    - Tier II offers an expanded network of providers and is a hybrid plan operating like an HMO and PPO.
    - Tier III covers all providers which are not in the managed care networks of Tiers I or II (i.e., out-of-network providers). Using Tier III can offer benefit recipients flexibility in selecting healthcare providers but involves higher out-of-pocket costs. Furthermore, benefit recipients who use out-of-network providers will be responsible for any amount that is over and above the charges allowed by the plan for services (i.e., allowable charges), which could result in substantial out-of-pocket costs. Benefit recipients enrolled in an OAP can mix and match providers and tiers.

Contributions

For the fiscal year ended June 30, 2018, the State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires that all active contributors of 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 .88% of each teacher's salary. For the fiscal year ended June 30, 2017, the employee contribution was 1.12% of salary and the employer contribution was .84% of each teacher's salary. 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 Teachers' Health Insurance Security Fund (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 member contribution, which may be paid on behalf of employees by the employer, is submitted to TRS by the employer.

On-Behalf Contributions to THIS. The State of Illinois makes employer benefit 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 OPEB liability associated with the District, and the District recognized revenue and expenditures of $45,618 in benefit contributions from the State of Illinois.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net OPEB liability (first amount shown below) that reflected a reduction for state benefit 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 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 pension liability	$	5,165,594
State's proportionate share of the net pension liability associated with the District		5,625,152
Total	$	10,790,746

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 THIS for the measurement year ended June 30, 2017, relative to the contributions of all participating THIS employers and the State during that period.

At June 30, 2017, the District's proportion was 0.019906%, which was a decrease of 0.000188% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District had benefit expense of $377,146 and on-behalf revenue/expense of $45,618 for support provided by the State. 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	Net Outflows of Resources
Differences between expected and actual experience	$ -	$ (2,926)	$ (2,926)
Net difference between projected and actual earnings on pension plan investments	-	(57)	(57)
Changes of assumptions	-	(615,032)	(615,032)
Changes in proportion and differences between employee contributions and proportionate share of contributions	-	(44,380)	(44,380)
Employer contributions subsequent to the measurement date	4,417	-	4,417
	$ 4,417	$ (662,395)	$ (657,978)

$4,417 of deferred outflows of resources related to OPEB results from employer contributions subsequent to the measurement date. Other deferred outflows of resources and deferred inflows of resources related to OPEB will be part of the OPEB expense in future years as follows:

Year Ending June 30		
2019	$	(330,187)
2020		(181,335)
2021		(109,459)
2022		(35,096)
2023		(1,900)
	$	(657,977)

Actuarial Assumptions

The total OPEB 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%
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%, net of OPEB plan investment expense, including inflation
Healthcare Cost Trend Costs	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 decrease to an ultimate trend of 4.5%. Additional trend rate of 0.59% is added to non-Medicare costs on and after 2020 to account for the Excise Tax.

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

The actuarial assumptions that were used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2015.

The long-term expected rate of return on OPEB 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 OPEB 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
Illinois Public Treasurers' Investment Pool	100.0%	0.68%
	100.0%	

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 TRIP (Teachers' Retirement Insurance Program) 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 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, THIS's fiduciary net position at June 30, 2017 was projected to be available to make all projected future benefit payments to current active and inactive members and all benefit recipients. 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 THIS investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

At June 30, 2017, the discount rate used to measure the total OPEB liability was 3.56%.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount 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%
Employer's proportionate share of the net OPEB liability	$ 12,948,751	$ 10,790,673	$ 9,063,868

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher. The key trend rates are 8.00% in 2018 decreasing to an ultimate trend rate of 5.09% in 2025, for non-Medicare coverage, and 9.00% in 2018 decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1% Decrease 2.56% (a)	Healthcare Cost Valuation Rate	1% Increase 4.56% (b)
Employer's proportionate share of the net OPEB liability	$ 8,709,178	$ 10,790,673	$ 13,778,306

(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 decrease 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.

NOTE 12 - RISK MANAGEMENT

SEDOM 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.

SEDOM is a member of the Collective Liability Insurance Cooperative (CLIC), a joint risk management pool of school districts through which property, general liability, automobile liability, crime, excess property, excess liability, and boiler and machinery coverage is provided in excess of specified limits for the members, acting as a single insurable unit.

The relationship between SEDOM and CLIC is governed by a contract and by-laws that have been adopted by resolution of each unit's governing body. SEDOM is contractually obligated to make all annual and supplementary contributions for CLIC, to report claims on a timely basis, cooperate with CLIC, its claims administrator and attorneys in claims investigation and settlement, and to follow risk management procedures as outlined by CLIC. Members have a contractual obligation to fund any deficit of CLIC attributable to a membership year during which they were a member.

CLIC is responsible for administering the self-insurance program and purchasing excess insurance according to the direction of the Board of Directors. CLIC also provides its members with risk management services, including the defense of and settlement of claims, and establishes reasonable and necessary loss of reduction and prevention procedures to be followed by the members.

During the year ended June 30, 2018, there were no significant reductions in insurance coverage. Also, there have been no settlement amounts that have exceeded insurance coverage. SEDOM is insured under a retrospectively-rated policy for worker's compensation coverage. Whereas, the initial premium may be adjusted based on actual experience. Adjustments in premiums are recorded when paid or received. During the year ended June 30, 2018, there were no significant adjustments in premiums based on actual experience.

NOTE 13 - CONTINGENCIES

SEDOM is not aware of any litigation which might have a material adverse effect on SEDOM's financial position.

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE

Effective for the year ended June 30, 2018, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus* 2017. These Statements establishes financial reporting standards for postemployment benefits other than pension agreements offered by the District. The Statements also requires additional disclosures about the postemployment benefits other than pensions offered by the District (see Note 11).

NOTE 15 - SUBSEQUENT EVENTS

As of the date of the current year audit report, SEDOM has approved the withdrawal of six districts (districts 3, 26, 46, 47, 155, and 158). This districts will no longer be a part of the joint agreement beginning with the June 30, 2019 fiscal year. At the time of filing for the withdrawal, SEDOM estimated the approximate loss in annual revenue would be $43,400.

SUPPLEMENTAL FINANCIAL INFORMATION

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION
LIABILITY AND RELATED RATIOS
JUNE 30, 2018

	6/30/2018 *	6/30/2017 *	6/30/2016 *	6/30/2015 *
TOTAL PENSION LIABILITY				
Service Cost	$ 37,990	$ 49,023	$ 217,501	$ 299,496
Interest on the Total Pension Liability	1,676,264	1,645,192	1,130,365	813,778
Differences Between Expected and Actual Experience	(3,288,941)	(94,171)	6,486,342	3,099,822
Changes in Assumptions	(594,826)	-	-	489,227
Benefit Payments, Including Refunds of Member Contributions	(1,140,404)	(1,220,082)	(551,126)	(329,202)
Net Change in Total Pension Liability	$ (3,309,917)	$ 379,962	$ 7,283,082	$ 4,373,121
Total Pension Liability - Beginning	22,901,389	22,521,427	15,238,345	10,865,224
Total Pension Liability - Ending	$ 19,591,472	$ 22,901,389	$ 22,521,427	$ 15,238,345
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	$ 161,379	$ 69,113	$ 111,211	$ 239,197
Contributions - Member	10,977	11,751	52,846	92,792
Net Investment Income	3,475,463	1,327,288	66,909	715,402
Benefit Payments, Including Refunds of Member Contributions	(1,140,404)	(1,220,082)	(551,126)	(329,202)
Other (Net Transfers)	(2,872,569)	(126,723)	6,175,010	1,130,576
Net Change in Plan Fiduciary Net Position	$ (365,154)	$ 61,347	$ 5,854,850	$ 1,848,765
Plan Net Position - Beginning	19,491,474	19,430,127	13,575,277	11,726,512
Plan Net Position - Ending	$ 19,126,320	$ 19,491,474	$ 19,430,127	$ 13,575,277
District's Net Pension Liability	$ 465,152	$ 3,409,915	$ 3,091,300	$ 1,663,068
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.63%	85.11%	86.27%	89.09%
Covered-Valuation Payroll	$ 179,350	$ 251,139	$ 1,174,346	$ 1,850,908
Employer's Net Pension Liability as a Percentage of Covered-Valuation Payroll	259.35%	1357.78%	263.24%	89.85%

* This information presented is based on the actuarial valuation performed as of the December 31 year end prior to the fiscal year end listed above.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years for which information is available.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF EMPLOYER CONTRIBUTION
JUNE 30, 2018

	6/30/2018*	6/30/2017*	6/30/2016*	6/30/2015 *
Actuarial Determined Contribution	$ 161,379	$ 63,513	$ 111,211	$ 214,705
Contributions in Relation to Actuarially-Determined Contribution	161,379	69,113	111,211	239,197
Contribution Deficiency/(Excess)	$ -	$ (5,600)	$ -	$ (24,492)
Covered-Valuation Payroll	$ 179,350	$ 251,139	$ 1,174,346	$ 1,850,908
Contributions as a Percentage of Covered-Valuation Payroll	89.98%	27.52%	9.47%	12.92%

Notes to Schedule:

Actuarial Method and Assumptions Used on the Calculation of the 2017 Contribution Rate *

Actuarially determined contribution rates are calculated as of December 31 each year, which are 12 months prior to the beginning of the fiscal year in which contributions are reported.

Actuarial Cost Method: Aggregate entry age = normal

Amortization Method: Level percentage of payroll, closed

Remaining Amortization Period: 26-year closed period

Asset Valuation Method: 5-year smoothed market; 20% corridor

Wage Growth: 3.5%

Price Inflation: 2.75%, approximate; No explicit price inflation assumption is used in this valuation.

Salary Increases: 3.75% to 14.50%, 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 2014 valuation pursuant to an experience study of the period 2011 to 2013.

Mortality: RP-2014 Blue Collar Healthy Mortality Table, adjusted to match current IMRF experience. For disabled lives, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives. For active members, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

*Based on Valuation Assumptions used in the December 31, 2015 actuarial valuation; note two year lag between valuation and rate setting.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years for which information is available.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
JUNE 30, 2018

	6/30/2018 *	6/30/2017 *	6/30/2016 *	6/30/2015 *
Employer's proportion of the Net Pension Liability	0.0000937000%	0.0001265681%	0.0004114348%	0.0005706145%
Employer's proportionate share of the Net Pension Liability	$ 71,597	$ 99,908	$ 269,531	$ 347,266
State's proportionate share of the Net Pension Liability associated with the employer	4,928,897	6,707,990	16,094,548	21,655,864
Total	$ 5,000,494	$ 6,807,898	$ 16,364,079	$ 22,003,130
Employer's Covered-Employee Payroll	$ 556,490	$ 879,840	$ 2,485,630	$ 3,629,222
Employer's proportionate share of the Net Pension Liability as a percentage of Covered-Employee Payroll	12.87%	11.36%	10.84%	9.57%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	39.30%	36.40%	41.50%	43.00%

* - The amounts presented were determined as of the prior fiscal-year end

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years for which information is available.

Changes of Assumptions:

For the 2017 and 2016 measurement year, the assumed investment rate of return was of 7.0%, including an inflation rate of 2.5% and a real return of 4.5%. Salary increases were assumed to vary by service credit.

For the 2015 measurement year, the assumed investment rate of return was 7.5%, including an inflation rate of 3.0% and a real return of 4.5%. Salary increases were assumed to vary by service credit. Various other changes in assumptions were adopted based on the experience analysis for the three-year period ending June 30, 2014.

For the 2014 measurement year, the assumed investment rate of return was also 7.5%, including an inflation rate of 3.0% and a real return of 4.5%. However, salary increases were assumed to vary by age.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
SCHEDULE OF EMPLOYER CONTRIBUTION
JUNE 30, 2018

	6/30/2018 *	6/30/2017 *	6/30/2016 *	6/30/2015 *
Statutorily-required contribution	$ 3,227	$ 4,902	$ 14,417	$ 21,049
Contributions in relation to statutorily-required contribution	3,617	4,902	15,276	22,895
Contribution deficiency/(excess)	$ (390)	$ -	$ (859)	$ (1,846)
Employer's Covered-Employee Payroll	$ 556,490	$ 879,840	$ 2,485,630	$ 3,629,222
Contributions as a percentage of covered-employee payroll	0.65%	0.56%	0.61%	0.63%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years for which information is available.

* - This information presented is based on the actuarial valuation performed as of the prior June 30 year end.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
TEACHER HEALTH INSURANCE SECURITY FUND OF THE STATE OF ILLINOIS
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
JUNE 30, 2018

	6/30/2018 *
Employer's proportion of the Net OPEB Liability	0.0199060%
Employer's proportionate share of the Net OPEB Liability	$ 5,165,594
State's proportionate share of the Net OPEB Liability associated with the employer	5,625,152
Total	$ 10,790,746
Covered Employee Payroll	$ 556,490
Employer's proportionate share of the Net OPEB Liability as a percentage of Covered Payroll	928.25%
OPEB Plan Net Position as a percentage of the Total OPEB Liability	-0.17%

* - The amounts presented were determined as of the prior fiscal-year end

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years for which information is available.

Changes of Assumptions:

For the 2017 measurement year, the assumed investment rate of return was 0%, including an inflation rate of 2.75%, and the healthcare cost trend rates used the actual trend. Salary increases include a 3.25% wage inflation.

See Accompanying Independent Auditor's Report

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
TEACHER HEALTH INSURANCE SECURITY FUND OF THE STATE OF ILLINOIS
SCHEDULE OF EMPLOYER CONTRIBUTION
JUNE 30, 2018

	6/30/2018 *
Statutorily-Required Contribution	$ 41,891
Contributions in relation to the Statutorily-Required Contribution	41,956
Contribution deficiency/(excess)	$ (65)
Covered Employee Payroll	$ 501,696
Contributions as a percentage of Covered Payroll	8.36%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years for which information is available.

* - This information presented is based on the actuarial valuation performed as of the prior June 30 year end.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	BALANCE JULY 1, 2017	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2018
A S S E T S				
Cash and Cash Equivalents	$ 26,327	$ 910	$ 2,152	$ 25,085
L I A B I L I T I E S				
Amount Due to Activity	$ 26,327	$ 910	$ 2,152	$ 25,085

See Accompanying Independent Auditor's Report

ANNUAL FEDERAL FINANCIAL COMPLIANCE SECTION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Special Education District of McHenry County
Woodstock, Illinois

Report on Compliance for Each Major Federal Program

We have audited

Special Education District of McHenry County's

compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Special Education District of McHenry County's major federal programs for the year ended June 30, 2018. Special Education District of McHenry County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Special Education District of McHenry County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Special Education District of McHenry County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Special Education District of McHenry County's compliance.

Opinion on Each Major Federal Program

In our opinion, Special Education District of McHenry County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Special Education District of McHenry County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Special Education District of McHenry County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Special Education District of McHenry County's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eder, Casella & Co.

EDER, CASELLA & CO.
Certified Public Accountants

McHenry, Illinois
September 28, 2018

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY

44-063-8010-60

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ending June 30, 2018

Federal Grantor/Pass-Through Grantor Program or Cluster Title and Major Program Designation	CFDA Number[2] (A)	ISBE Project # (1st 8 digits) or Contract #[3] (B)	Receipts/Revenues Year 7/1/16-6/30/17 (C)	 Year 7/1/17-6/30/18 (D)	Expenditure/Disbursements[4] Year 7/1/16-6/30/17 (E)	 Year 7/1/16-6/30/17 Pass through to Subrecipients	 Year 7/1/17-6/30/18 (F)	 Year 7/1/17-6/30/18 Pass through to Subrecipients	Obligations/ Encumb. (G)	Final Status (E)+(F)+(G) (H)	Budget (I)
										0	
U.S. Department of Education Passed Through										0	
Illinois State Board of Education:										0	
IDEA - Flow Through (M)	84.027	17-4620-00	6,516,606	1,954,200	6,516,604	6,448,362	1,954,202	1,945,898		8,470,806	9,597,914
IDEA - Flow Through (M)	84.027	18-4620-00		5,910,703			6,083,547	6,055,031	3,616,904	9,700,451	9,700,451
										0	
IDEA - Preschool Flow Through (M)	84.173	17-4600-00	189,631	74,808	189,631	187,982	74,808	74,808		264,439	333,077
IDEA - Preschool Flow Through (M)	84.173	18-4600-00		199,883			205,540	205,540	135,409	340,949	340,949
										0	
Subtotal - CFDA "84"			6,706,237	8,139,594	6,706,235	6,636,344	8,318,097	8,281,277	3,752,313	18,776,645	
										0	
U.S. Department of Health and Human										0	
Services Passed Through State of Illinois										0	
Department of Health and Family Services:										0	
	93.778	18-4991-00		3,783			3,783			3,783	N/A
Subtotal - CFDA "93"			0	3,783	0	0	3,783	0	0		
Total Federal Assistance			6,706,237	8,143,377	6,706,235	6,636,344	8,321,880	8,281,277	3,752,313	18,780,428	

• **(M)** Program was audited as a major program as defined by §200.518.

***Include the total amount provided to subrecipients from each Federal program. §200.510 (b)(4).**

The accompanying notes are an integral part of this schedule.

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[1] To meet state or other requirements, auditees may decide to include certain nonfederal awards (for example, state awards) in this schedule. If such nonfederal data are presented they should be segregated and clearly designated as nonfederal. The title of the schedule should also be modified to indicate that nonfederal awards are included.

[2] When the CFDA number is not available, the auditee should indicate that the CFDA number is not available and include in the schedule the program's name and, if applicable, other identifying number.

[3] When awards are received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included in the schedule. §200.510 (b)(2)

[4] The Uniform Guidance requires that the value of federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end be included in the schedule and suggests to include the amounts in the SEFA notes.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
DETAILED SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

		FLOW THROUGH 17-4620-00			FLOW THROUGH 18-4620-00			PRESCHOOL FLOW THROUGH 17-4600-00			PRESCHOOL FLOW THROUGH 18-4600-00		
DISTRICT NO.	DISTRICT NAME	7/1/17 to 6/30/17	7/1/17 to 6/30/18	FINAL STATUS	7/1/17 to 6/30/18	OUTSTANDING OBLIGATIONS	FINAL STATUS	7/1/16 to 6/30/17	7/1/17 to 6/30/18	FINAL STATUS	7/1/17 to 6/30/18	OUTSTANDING OBLIGATIONS	FINAL STATUS
2	Nippersink School District	$ 203,363	$ 32,529	$ 235,892	$ 220,878	$ 28,511	$ 249,389	$ 11,407	$ 1,860	$ 13,267	$ 9,710	$ 126	$ 9,836
3	Fox River Grove	111,748	924	112,672	106,750	2,480	109,230	3,661	-	3,661	3,399	-	3,399
12	Johnsburg Community Unit	427,019	9,341	436,360	426,019	49,695	475,714	9,441	55	9,496	14,076	1,068	15,144
15	McHenry Elementary	807,619	264,420	1,072,039	831,420	244,769	1,076,189	38,285	15,040	53,325	38,463	14,947	53,410
18	Riley Community Consolidated	45,354	1,799	47,153	57,164	7,529	64,693	-	971	971	-	971	971
19	Alden-Hebron Community Consolidated	95,106	10,939	106,045	88,128	7,800	95,928	3,083	1,027	4,110	9,496	934	10,430
26	Cary Community Consolidated	447,614	224,143	671,757	-	777,609	777,609	15,755	26,583	42,338	21,297	48,827	70,124
36	Harrison Elementary	66,252	19,324	85,576	71,081	26,443	97,524	6,564	-	6,564	6,359	-	6,359
46	Prairie Grove Elementary	157,152	17,362	174,514	149,103	32,917	182,020	5,243	810	6,053	7,759	3,043	10,802
47	Crystal Lake Community Consolidated	947,386	498,554	1,445,940	1,046,395	1,158,699	2,205,094	64,295	22,658	86,953	73,240	45,029	118,269
50	Harvard Community Unit	489,886	93,435	583,321	275,543	321,690	597,233	14,500	1,037	15,537	8,130	7,407	15,537
154	Marengo Community High	123,430	5,535	128,965	123,629	416	124,045	-	-	-	-	-	-
155	Crystal Lake Community High	836,565	232,608	1,069,173	942,915	339,849	1,282,764	-	-	-	-	-	-
156	McHenry Community High	312,949	120,241	433,190	311,693	188,539	500,232	-	-	-	-	-	-
157	Richmond Burton Community High	123,868	3,329	127,197	112,146	25,105	137,251	-	-	-	-	-	-
158	Huntley Consolidated	1,004,766	405,858	1,410,624	1,076,855	340,695	1,417,550	5,186	2,674	7,860	1,797	4,317	6,114
165	Marengo-Union Elementary Consolidated	248,285	5,557	253,842	215,312	48,324	263,636	10,562	2,093	12,655	11,814	8,740	20,554
		$ 6,448,362	$ 1,945,898	$ 8,394,260	$ 6,055,031	$ 3,601,070	$ 9,656,101	$ 187,982	$ 74,808	$ 262,790	$ 205,540	$ 135,409	$ 340,949

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal award activity of Special Education District of McHenry County under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of SEDOM, it is not intended to and does not present the financial position, changes in net assets or cash flows of SEDOM.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

SEDOM has elected not to use the 10 percent de minimis indirect rate as allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, Special Education District of McHenry County provided federal awards to subrecipients (detailed statement of expenditures) during the June 30, 2018 fiscal year as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
IDEA - Flow Through	84.027	$ 8,000,929
IDEA - Preschool Flow Through	84.173	280,348

NOTE 5 - FEDERAL LOANS

There were no federal loans or loan guarantees outstanding at year end.

1) Summary of auditor's results:

a. An adverse opinion report was issued due to the use of the Regulatory Basis of Accounting.

b. No significant deficiencies in internal control were disclosed by the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

c. No instances of noncompliance material to the financial statements of Special Education District of McHenry County, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed by the audit of the financial statements.

d. No significant deficiencies and no material weaknesses in internal control over major federal award programs were disclosed during the audit.

e. The auditor's report on compliance for the major federal award programs for the Special Education District of McHenry County expressed as unmodified opinion on all major federal programs.

f. There were no audit findings that are required to be reported in accordance with the Uniform Guidance 2 CFR section 200.516(a).

g. The major programs identified were IDEA – Flow Through, CFDA #84.027 and IDEA – Preschool Flow Through, CFDA #84.173.

h. The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

i. Special Education District of McHenry County does not qualify as a low-risk auditee.

2) There were no findings relating to the financial statements which are required to be reported.

3) There were no findings or questioned costs for federal awards which are required to be reported.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
44-063-8010-60
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ending June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

1. FINDING NUMBER:[11] **2018- N/A** **2. THIS FINDING IS:** ☐ New ☐ **Repeat from Prior Year?**
Year originally reported? ______

3. Criteria or specific requirement

4. Condition

5. Context[12]

6. Effect

7. Cause

8. Recommendation

9. Management's response[13]

[11] A suggested format for assigning reference numbers is to use the digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 2018 would be assigned a reference number of 2018-001, 2018-002, etc. The sheet is formatted so that only the number need be entered (1, 2, etc.)

[12] Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars

[13] See §200.521 *Management decision* for additional guidance on reporting management's response.

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
44-063-8010-60
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ending June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. FINDING NUMBER:[14] **2018- N/A** **2. THIS FINDING IS:** ☐ New ☐ Repeat from Prior year?
Year originally reported? ______

3. Federal Program Name and Year: ______

4. Project No.: ______ **5. CFDA No.:** ______

6. Passed Through: ______
7. Federal Agency: ______

8. Criteria or specific requirement (including statutory, regulatory, or other citation)

9. Condition[15]

10. Questioned Costs[16]

11. Context[17]

12. Effect

13. Cause

14. Recommendation

15. Management's response[18]

For ISBE Review
Date: ______ Resolution Criteria Code Number ______
Initials: ______ Disposition of Questioned Costs Code Letter ______

[14] See footnote 11.
[15] Include facts that support the deficiency identified on the audit finding (§200.516 (b)(3))
[16] Identify questioned costs as required by §200.516 (a)(3 - 4).
[17] See footnote 12.
[18] To the extent practical, indicate when management does not agree with the finding, questioned cost, or both

SPECIAL EDUCATION DISTRICT OF MCHENRY COUNTY
44-063-8010-60
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS[19]
Year Ending June 30, 2018

[If there are no prior year audit findings, please submit schedule and indicate **NONE**]

Finding Number	Condition	Current Status[20]

NONE

When possible, all prior findings should be on the same page
[19] Explanation of this schedule - §200.511 (b)
[20] Current Status should include one of the following:
- A statement that corrective action was taken
- A description of any partial or planned corrective action
- An explanation if the corrective action taken was significantly different from that previously reported or in the management decision received from the pass-through entity.