

**BENTON HARBOR
AREA SCHOOLS
Berrien County, Michigan**

Annual Financial Report

For the year ended June 30, 2018

BENTON HARBOR AREA SCHOOLS
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For the year ended June 30, 2018

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

October 30, 2018

The Board of Education
Benton Harbor Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Benton Harbor Area Schools (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Benton Harbor Area Schools as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Benton Harbor Area Schools' basic financial statements. The supplementary 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 individual fund financial statement is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statement is fairly stated in all material respects in relation to the basic financial statements as a whole.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note K to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ended June 30, 2018. Our opinion is not modified with respect to this matter

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2018 on our consideration of Benton Harbor Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Benton Harbor Area Schools' internal control over financial reporting and compliance.



Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS



Benton Harbor Area Schools
Management's Discussion and Analysis
June 30, 2018

As management of the Benton Harbor Area Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
- Governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net position, and how it has changed. Net position - the difference between the District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position is an indicator of whether its financial position and OPEB is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base and the condition of school buildings and other facilities.



Benton Harbor Area Schools
Management's Discussion and Analysis
June 30, 2018

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncements Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2018. This Statement establishes standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. These changes resulted in a reduction of \$8,588,403 in district-wide net position as of July 1, 2017, (to record the beginning net OPEB liability of \$9,333,882 less the OPEB contributions made after the measurement date of \$745,479) and now include the net OPEB liability of the District of \$8,849,139 at June 30, 2018.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	<u>2018</u>	<u>2017</u>
Assets		
Current assets	\$ 13,142,350	\$ 11,586,774
Net capital assets	<u>13,945,536</u>	<u>14,726,954</u>
Total Assets	<u>27,087,886</u>	<u>26,313,728</u>
Deferred Outflows of Resources	<u>6,056,973</u>	<u>3,998,799</u>
Liabilities		
Current liabilities	14,383,244	14,771,591
Long-term liabilities	11,717,585	10,769,027
Net pension liability	25,747,558	28,109,183
Net OPEB liability	<u>8,849,139</u>	<u>-</u>
Total Liabilities	<u>60,697,526</u>	<u>53,649,801</u>
Deferred Inflows of Resources	<u>6,970,897</u>	<u>3,976,636</u>
Net Position		
Net investment in capital assets	12,682,807	13,176,146
Restricted	3,539,196	2,575,406
Unrestricted (deficit)	<u>(50,745,567)</u>	<u>(43,065,462)</u>
Total Net Position	<u>\$ (34,523,564)</u>	<u>\$ (27,313,910)</u>



Benton Harbor Area Schools
Management's Discussion and Analysis
June 30, 2018

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net position for the year.

The Statement of Activities presents changes in net position from operating results:

	2018	2017
Program Revenues		
Charges for services	\$ 116,775	\$ 95,828
Operating grants	12,728,244	13,823,131
General Revenues		
Property taxes	7,722,805	7,322,368
State school aid, unrestricted	9,458,385	10,770,991
Interest earnings	21,623	5,593
Other	526,826	271,885
Extraordinary item	(655,893)	-
Total Revenues	29,918,765	32,289,796
Expenses		
Instruction	10,670,696	11,284,458
Supporting services	14,260,772	13,541,228
Community services	53,537	123,929
Food service	1,873,311	1,629,993
Other	323,540	23,085
Interest on long-term debt	278,042	287,021
Unallocated depreciation	1,080,118	1,058,764
Total Expenses	28,540,016	27,948,478
Change in Net Position	1,378,749	4,341,317
Net Position , Beginning of Year, as restated	(35,902,313)	(31,655,227)
Net Position , End of Year	\$ (34,523,564)	\$ (27,313,910)

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors: changes in net State Aid, student enrollment, the nature and size of grant awards, and the District's implementation of cost reductions.

Compared to the previous fiscal year, the District's total revenues decreased by nearly \$2.4 million to \$29.9 million. Property taxes and unrestricted State aid accounted for 57% of the District's revenue. Another 43% came from state and federal aid for specific programs, and the remaining revenue came from fees charged for services, interest earnings and other local sources.



Benton Harbor Area Schools
Management's Discussion and Analysis
June 30, 2018

The total cost of all programs and services increased by about \$650,000 thousand to \$28.6 million. The District's expenses are predominantly related to instruction, pupil services, food service and for the transporting of students (58 percent). The District's administrative and business services accounted for 14 percent, operation and maintenance and technology services accounted for 11 percent. Interest on long-term debt accounted for 1 percent of total District expenses.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Benton Harbor Area Schools' funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$27,246,971, other financing sources of \$600,000, total expenditures of \$26,535,181, and total other financing uses of \$323,540. The District ended the fiscal year with a \$988,250 increase in fund balance for a total fund deficit balance of \$4,425,383, up from a fund deficit balance \$5,413,633 at June 30, 2017.



**Benton Harbor Area Schools
Management's Discussion and Analysis
June 30, 2018**

Nonmajor Funds

Special Revenue Fund

The District operates one Special Revenue Fund for the Food Service program. Total revenues were \$1,920,000, and total expenditures were \$1,988,722. The June 30, 2018 fund balance was \$1,085,715, down from \$1,154,437 at June 30, 2017.

Capital Project Funds

There are two Capital Project Funds incorporated into the financial statements of the District, the 2008 Building and Site (Sinking) Fund and the 2017 Sinking Fund. Revenues for the 2008 Building and Site Fund totaled \$6,355, while total expenditures were \$273,648. The ending fund balance was \$1,153,676 at June 30, 2018, down from a fund balance of \$1,420,969 at June 30, 2017.

Revenues for the new 2017 Sinking Fund totaled \$1,401,332, while total expenditures were \$101,527. The ending fund balance was \$1,299,805 at June 30, 2018.

Fiduciary Fund

The Student Activities Fund is operated as the only Fiduciary Fund of the District. The assets of this fund are being held for the benefit of the District's students. Balances on hand at June 30, 2018 totaled \$177,285.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget on two separate occasions. The budget amendments were a result of the following:

- Total budgeted revenues decreased by approximately \$2 million due to reduced state aid as a result of loss of students and reduced revenues from federal grant sources.
- Total budgeted expenditures decreased by approximately \$3.5 million due to reduced federal and state grant expenditures and significant numbers of unfilled teaching positions for much of the school year.
- Total other financing sources decreased by approximately \$1.2 million due to the District not drawing all of its remaining emergency loan funds and anticipated sales of surplus District property not taking place.

The District's budget to actual results were stronger than budgeted due to savings from unfilled teaching positions.



**Benton Harbor Area Schools
Management’s Discussion and Analysis
June 30, 2018**

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the District had invested \$31.1 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. The District’s 2017-18 capital additions totaled \$298,700 and total depreciation expense for the year was \$1,080,118. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2018, the District’s investment in capital assets (net of accumulated depreciation), decreased approximately \$781,418 from the previous year-end, is detailed as follows:

Land	\$ 723,477
Buildings and improvements	12,656,920
Furniture and equipment	361,035
Buses and other vehicles	40,721
Site improvements	<u>163,383</u>
Net Capital Assets	<u><u>\$ 13,945,536</u></u>

Long-term Debt

At year end, the District had total long-term debt of \$12 million. This included \$1,230,000 in Michigan Municipal Bond Authority obligations, and \$10,095,000 of emergency loans. (More detailed information about long-term debt can be found in Note G in the Notes to Basic Financial Statements.)

- The District continued to pay down its debt, retiring \$288,079 of outstanding bonds, loans, and leases.
- The District’s other long term obligation is for accumulated vacation pay.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a district’s boundaries.

Factors Bearing on the District’s Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- There are many economic factors that affect the District’s fiscal year budget. One of the most important factors is our student count. The student count for the 2018-19 fiscal year was budgeted to decrease 120 student. The District is heavily dependent on the State’s ability to fund local school district operations.
- The budget includes a per pupil foundation allowance increase of \$240 per pupil.
- The District remains in a deficit situation and continues to seek elimination of the deficit in accordance with its approved deficit elimination plan.



**Benton Harbor Area Schools
Management's Discussion and Analysis
June 30, 2018**

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Benton Harbor Area Schools, 1995 Union Street, Benton Harbor, Michigan 49023. Contact by e-mail: todd.mora@bhas.org. Contact by phone: (269) 605-1000

BASIC FINANCIAL STATEMENTS

BENTON HARBOR AREA SCHOOLS
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash	\$ 466
Cash equivalents, deposits and investments (Note B)	8,685,249
Accounts receivable	44,704
Due from other governmental units (Note C)	4,362,859
Inventory	23,850
Prepaid expenses	25,222
Capital assets not being depreciated (Note E)	723,477
Capital assets being depreciated, net (Note E)	13,222,059
	27,087,886
Deferred Outflows of Resources	
Deferred pension amounts	5,539,265
Deferred OPEB amounts	517,708
	6,056,973
Liabilities	
Accounts payable	1,381,679
Loans payable (Note F)	8,100,000
Due to other governmental units	1,115,381
Accrued interest payable	144,128
Payroll liabilities payable	101,934
Salaries payable	905,811
Unearned revenue	2,324,232
Long-term liabilities (Note G):	
Due within one year	310,079
Due in more than one year	11,717,585
Net pension liability	25,747,558
Net OPEB liability	8,849,139
	60,697,526
Deferred Inflows of Resources	
Deferred pension amounts	6,671,732
Deferred OPEB amounts	299,165
	6,970,897
Net Position	
Net investment in capital assets	12,682,807
Restricted for:	
Food service	1,085,715
Capital projects	2,453,481
Unrestricted (deficit)	(50,745,567)
	\$ (34,523,564)

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 10,670,696	\$ -	\$ 9,333,774	\$ (1,336,922)
Supporting services	14,260,772	40,693	1,552,226	(12,667,853)
Community services	53,537	384	-	(53,153)
Food service	1,873,311	75,698	1,842,244	44,631
Other	323,540	-	-	(323,540)
Interest on long-term debt	278,042	-	-	(278,042)
Unallocated depreciation*	1,080,118	-	-	(1,080,118)
Total Governmental Activities	\$ 28,540,016	\$ 116,775	\$ 12,728,244	(15,694,997)
General Revenues				
Taxes:				
Property taxes, levied for general operations				6,321,394
Property taxes, levied for capital improvements				1,401,411
State school aid, unrestricted				9,458,385
Interest and investment earnings				21,623
Other				526,826
Extraordinary item (Note N)				(655,893)
Total General Revenues and Extraordinary Item				17,073,746
Change in Net Position				1,378,749
Net Position - Beginning of Year as Restated, Note K				(35,902,313)
Net Position - End of Year				\$ (34,523,564)

*This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2018

Assets	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Cash	\$ 125	\$ 341	\$ 466
Cash equivalents, deposits and investments (Note B)	5,799,127	2,886,122	8,685,249
Accounts receivable	13,478	-	13,478
Due from other funds (Note D)	172,998	842,047	1,015,045
Due from other governmental units (Note C)	4,125,412	237,447	4,362,859
Inventory	13,580	10,270	23,850
Prepaid expenditures	25,222	-	25,222
Total Assets	<u>\$ 10,149,942</u>	<u>\$ 3,976,227</u>	<u>\$ 14,126,169</u>
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable	\$ 1,211,859	\$ 169,768	\$ 1,381,627
Loans payable (Note F)	8,100,000	-	8,100,000
Due to other funds (Note D)	716,608	267,263	983,871
Due to other governmental units	1,115,381	-	1,115,381
Payroll liabilities payable	101,934	-	101,934
Accrued interest payable	99,500	-	99,500
Salaries payable	905,811	-	905,811
Unearned revenue	2,324,232	-	2,324,232
Total Liabilities	<u>14,575,325</u>	<u>437,031</u>	<u>15,012,356</u>
Fund Balances (Deficit) (Notes A, K)			
Nonspendable	38,802	10,270	49,072
Restricted	-	3,528,926	3,528,926
Unassigned (deficit)	(4,464,185)	-	(4,464,185)
Total Fund Balances (Deficit)	<u>(4,425,383)</u>	<u>3,539,196</u>	<u>(886,187)</u>
Total Liabilities and Fund Balances	<u>\$ 10,149,942</u>	<u>\$ 3,976,227</u>	<u>\$ 14,126,169</u>

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances (Deficit) to
Net Position of Governmental Activities
June 30, 2018

Total governmental fund balances (deficit)		\$ (886,187)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$31,143,481 and accumulated depreciation is \$17,197,945		13,945,536
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$ (1,230,000)	
Commercial rehab tax due	(655,893)	
Emergency loans	(10,095,000)	
Capital lease	(32,729)	
Vacation leave	(14,042)	
		(12,027,664)
Accrued interest is not included as a liability in governmental funds.		(44,628)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(25,747,558)	
Deferred outflows	5,539,265	
Deferred inflows	(6,671,732)	
		(26,880,025)
Net OPEB liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB liability	(8,849,139)	
Deferred outflows	517,708	
Deferred inflows	(299,165)	
		(8,630,596)
Total net position - governmental activities		\$ (34,523,564)

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficit)
Governmental Funds
For the year ended June 30, 2018

	General	Nonmajor	Total
Revenues			
Local sources	\$ 6,902,586	\$ 1,485,443	\$ 8,388,029
State sources	14,917,189	56,062	14,973,251
Federal sources	5,142,018	1,786,182	6,928,200
Interdistrict sources	285,178	-	285,178
Total Revenues	<u>27,246,971</u>	<u>3,327,687</u>	<u>30,574,658</u>
Expenditures			
Current:			
Instruction	11,456,334	-	11,456,334
Supporting services	14,457,056	284,910	14,741,966
Community services	53,787	-	53,787
Food service	-	1,988,722	1,988,722
Capital outlay	-	90,265	90,265
Debt service:			
Principal repayment	288,079	-	288,079
Interest and fiscal charges	279,925	-	279,925
Total Expenditures	<u>26,535,181</u>	<u>2,363,897</u>	<u>28,899,078</u>
Excess of Revenues Over Expenditures	<u>711,790</u>	<u>963,790</u>	<u>1,675,580</u>
Other Financing Sources (Uses)			
Emergency loans issued	600,000	-	600,000
Other transactions	(323,540)	-	(323,540)
Total Other Financing Sources (Uses)	<u>276,460</u>	<u>-</u>	<u>276,460</u>
Net Change in Fund Balances	988,250	963,790	1,952,040
Fund Balances (Deficit), Beginning of Year	<u>(5,413,633)</u>	<u>2,575,406</u>	<u>(2,838,227)</u>
Fund Balances (Deficit), End of Year	<u>\$ (4,425,383)</u>	<u>\$ 3,539,196</u>	<u>\$ (886,187)</u>

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit) of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2018

Net change in fund balances (deficit) - total governmental funds		\$ 1,952,040
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:</p>		
	Capital outlays	\$ 298,700
	Depreciation expense	<u>(1,080,118)</u>
		(781,418)
Long-term debt related to payments due to the Michigan Department Treasury for incorrect remittance of Industrial Rehab tax credit revenues.		(655,893)
Proceeds from Emergency Loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position.		(600,000)
Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities:		
Repayment of bonds	275,000	
Repayment of capital lease	<u>13,079</u>	288,079
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.		1,883
In the Statement of Net Position, vacation payable is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$82,984) exceeded the amounts earned (\$73,728).		9,256
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.		1,206,995
The changes in net OPEB liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.		<u>(42,193)</u>
Total changes in net position - governmental activities		<u><u>\$ 1,378,749</u></u>

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Budget and Actual
For the year ended June 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ 6,056,696	\$ 6,815,515	\$ 6,902,586	\$ 87,071
State sources	16,333,775	15,014,816	14,917,189	(97,627)
Federal sources	7,407,679	5,940,843	5,142,018	(798,825)
Interdistrict sources	316,850	299,106	285,178	(13,928)
Total Revenues	30,115,000	28,070,280	27,246,971	(823,309)
Expenditures				
Current:				
Instruction:				
Basic programs	7,809,800	6,130,635	5,975,735	154,900
Added needs	5,912,781	5,952,801	5,410,599	542,202
Adult education	81,200	70,000	70,000	-
Supporting services:				
Pupil services	1,154,545	1,150,107	1,111,899	38,208
Instructional staff services	3,512,818	3,153,952	2,766,249	387,703
General administrative services	1,307,877	1,304,725	1,221,591	83,134
School administrative services	1,553,210	1,625,692	1,572,123	53,569
Business services	1,106,384	1,025,000	1,084,385	(59,385)
Operation and maintenance services	4,807,785	3,254,787	3,138,654	116,133
Pupil transportation services	1,994,161	2,025,000	2,141,911	(116,911)
Central services	967,933	1,044,087	849,837	194,250
Other supporting services	526,725	602,625	570,407	32,218
Community services	160,071	102,371	53,787	48,584
Debt service:				
Principal repayment	275,000	275,000	288,079	(13,079)
Interest and fiscal charges	277,350	277,350	279,925	(2,575)
Total Expenditures	31,447,640	27,994,132	26,535,181	1,458,951
Excess (Deficiency) of Revenues Over Expenditures	(1,332,640)	76,148	711,790	635,642
Other Financing Sources (Uses)				
Emergency loans issued	1,250,000	600,000	600,000	-
Sale of capital assets	525,000	-	-	-
Transfers in	60,000	2,500	-	(2,500)
Other transactions	(377,360)	(320,000)	(323,540)	(3,540)
Total Other Financing Sources (Uses)	1,457,640	282,500	276,460	(6,040)
Net Change in Fund Balances	125,000	358,648	988,250	629,602
Fund Balances (Deficit), Beginning of Year	(5,413,633)	(5,413,633)	(5,413,633)	-
Fund Balances (Deficit), End of Year	\$ (5,288,633)	\$ (5,054,985)	\$ (4,425,383)	\$ 629,602

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2018

	<u>Agency Fund</u>
Assets	
Cash equivalents, deposits and investments (Note B)	\$ 177,233
Due from other funds (Note D)	<u>52</u>
Total Assets	<u><u>\$ 177,285</u></u>
Liabilities	
Accounts payable	\$ 1,522
Due to other funds (Note D)	31,226
Due to student groups	<u>144,537</u>
Total Liabilities	<u><u>\$ 177,285</u></u>

See accompanying notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Note A – Summary of Significant Accounting Policies

Benton Harbor Area Schools (the “District”) was organized under the School Code of the State of Michigan and services a population of approximately 2,127 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

At its meeting on June 28, 2018, The Board entered into a Cooperative Agreement between the District and the Michigan Department of Education's State School Reform/Redesign District with an effective date of July 17, 2018. This agreement significantly changes the role of the Board of Education and its powers. As part of this agreement, the District hired a Superintendent/Chief Executive Officer. This new position employs many of the responsibilities that were formally administered by the Board of Education.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District’s significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is presented on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net position is reported in three parts: net investment in capital assets, restricted net assets, and unrestricted net assets.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation allowance is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the District is the Food Service Fund.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Agency Funds—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Benton Harbor Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund and Food Service Fund budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- The budgets were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventories/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the General Fund consist of teaching and custodial supplies, while inventories of the Food Service Fund consist of food, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed (consumption method) rather than when purchased.

8. Capital Assets

Capital assets, which include land, buildings and improvements, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and equipment	5-10 years
Buses and other vehicles	5-10 years

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

10. Accumulated Vacation Leave

Accumulated vacation leave payable at June 30, 2018 has been computed and recorded in the district-wide financial statements. Certain employees who leave the District are entitled to reimbursement for a portion of their unused vacation days. The District's vacation policy does not permit vacation days earned during the year to be carried forward, with the exception of certain members of the management team and administrators, whose unused vacation days are included in this computation. At June 30, 2018, the accumulated liability, including salary related payments, (expected to be financed by General Fund revenues) for accumulated vacation leave amounted to \$14,042.

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

12. Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the District during the fiscal year ended June 30, 2018. This Statement establish standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred outflows relating to the recognition of net pension liability on the financial statements and the deferred outflows relating to the recognition of net OPEB liability on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB liability on the financial statements.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

14. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

15. Fund Balance

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.
- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Assigned fund balance does not lapse at year end.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District’s policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

16. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

17. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2018 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	\$ 8,685,249
 Fiduciary Funds:	
Agency Fund	<u>177,233</u>
	<u>\$ 8,862,482</u>

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Chemical Bank
2. Horizon Bank

Cash equivalents consist of bank public funds checking and savings accounts. Deposits consist of certificates of deposit.

June 30, 2018 balances are detailed as follows:

Cash equivalents	\$ 7,448,590
Deposits	<u>93,988</u>
	<u>\$ 7,542,578</u>

Custodial Credit Risk Related to Cash Equivalents and Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's cash equivalents and deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$7,542,578 and the bank balance was \$8,442,565. Of the bank balance, \$500,000 was covered by federal depository insurance and \$7,942,565 was uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

As of June 30, 2018, State Aid Anticipation Note set aside payments totaling \$1,319,904 were held in trust at U.S. Bank.

The District's policies to minimize investment risk are as follows:

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business using the criteria established in the investment policy.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy does not have specific limits on investment credit risk beyond State law limitations.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer. The District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the District's policy prohibit investment in foreign currency.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February 2017 and October 2017. The 2017-18 "Foundation Allowance" for Benton Harbor Area Schools was \$7,631 for 2,138 "Full Time Equivalent" students, generating \$13,119,317 in State aid payments to the District of which \$2,342,398 was paid to the District in July and August 2018 and included as "Due From Other Governmental Units" of the General Fund and the Food Service Special Revenue Fund at June 30, 2018.

Property taxes for the District are levied July 1 (the tax lien date) by the Cities of Benton Harbor and St. Joseph, and the Townships of Bainbridge, Benton, Hagar, Pipestone, St. Joseph, and Sodus, and are due 75 days after the levy date. The taxes are then collected by the Cities and Townships, and remitted to the District. The County of Berrien, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

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Benton Harbor Area Schools' electors previously (March 8, 2016) approved a 10 year operating millage extension on the 18 mill non-homestead property tax.

Voters approved a 10 year sinking fund millage on May 2, 2017. The District levied 2.0 mills for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

The District is subject to tax abatements granted by the County of Berrien with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2018, the District's property tax revenues were reduced by approximately \$303,167 under these agreements.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Note D – Interfund Receivables/Payables and Transfers

Amounts due from/to other funds representing interfund receivables and payables for unreimbursed 2017-18 expenditures at June 30, 2018 are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ 14,997	\$ 653,336
Capital Projects Fund:		
Building and Site Fund	117,113	-
2017 Sinking Fund	115	-
Agency Fund:		
Student Activity Fund	40,773	63,272
	172,998	716,608
Total Major Fund		
Nonmajor Funds		
Special Revenue Fund:		
Food Service Fund:		
General Fund	704,451	12,554
Capital Projects Fund:		
Building and Site Fund:		
General Fund	-	117,113
2017 Sinking Fund	101,370	36,226
2017 Sinking Fund:		
Building and Site Fund	36,226	101,370
	842,047	267,263
Total Nonmajor Funds		
Fiduciary Fund		
Agency Fund:		
Student Activity Fund:		
General Fund	52	31,226
	1,015,097	1,015,097
Total All Funds	\$ 1,015,097	\$ 1,015,097

There we no operating transfers between funds during the year ended June 30, 2018.

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Note E – Capital Assets

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

	Balances July 1, 2017	Additions	Deductions	Balances June 30, 2018
Capital assets not being depreciated:				
Land	\$ 723,477	\$ -	\$ -	\$ 723,477
Totals capital assets not being depreciated	<u>723,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>723,477</u>
Capital assets being depreciated:				
Buildings and improvements	28,824,496	\$ 26,763	\$ -	28,851,259
Furniture and equipment	921,782	149,549	-	1,071,331
Buses and other vehicles	148,278	37,465	-	185,743
Site improvements	226,748	84,923	-	311,671
Totals capital assets being depreciated	<u>30,121,304</u>	<u>\$ 298,700</u>	<u>\$ -</u>	<u>30,420,004</u>
Less accumulated depreciation for:				
Buildings and improvements	15,243,050	\$ 951,289	\$ -	16,194,339
Furniture and equipment	619,394	90,902	-	710,296
Buses and other vehicles	131,418	13,604	-	145,022
Site improvements	123,965	24,323	-	148,288
Total accumulated depreciation	<u>16,117,827</u>	<u>\$ 1,080,118</u>	<u>\$ -</u>	<u>17,197,945</u>
Total capital assets being depreciated, net	<u>14,003,477</u>			<u>13,222,059</u>
Net Capital Assets	<u>\$ 14,726,954</u>			<u>\$ 13,945,536</u>

Net depreciation expense of \$1,080,118 was charged to "unallocated depreciation" and was not allocated to other functions.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Note F – Short-term Debt

On August 22, 2016, the District borrowed \$7,509,000 (interest at 1.20%) in anticipation of State aid. The notes, plus interest, were repaid on August 21, 2017.

On August 21, 2017, the District borrowed \$1,950,000 and \$6,150,000 (interest at 1.27% and 1.49%, respectively) in anticipation of State aid. The notes, plus interest, are due July 20 and August 20, 2018, respectively.

Interest expense and amortized issuance costs on the loans totaled \$124,904 in 2017-18.

	Debt Outstanding July 1, 2017	Debt Added	Debt Retired	Debt Outstanding June 30, 2018
State Aid Anticipation Loans	\$ 7,509,000	\$ 8,100,000	\$ 7,509,000	\$ 8,100,000

Note G – Long-term Debt

Changes in long-term debt for the year ended June 30, 2018 are summarized as follows:

	Debt Outstanding July 1, 2017	Debt Added	Debt Retired	Debt Outstanding June 30, 2018
Michigan Municipal Bond Authority:				
Series 2002B	\$ 670,000	\$ -	\$ 120,000	\$ 550,000
Series 2007A	835,000	-	155,000	680,000
Emergency Loans:				
2012-13 Series I	515,000	-	-	515,000
2013-14 Series I	1,230,000	-	-	1,230,000
2014-15 Series I	1,400,000	-	-	1,400,000
2015-16 Series I	3,300,000	-	-	3,300,000
2016-17 Series I	3,050,000	600,000	-	3,650,000
Commercial Rehab Tax Due State of Michigan	-	655,893	-	655,893
Capital lease	45,808	-	13,079	32,729
Vacation leave	23,298	73,728	82,984	14,042
	\$ 11,069,106	\$ 1,329,621	\$ 371,063	\$ 12,027,664

BENTON HARBOR AREA SCHOOLS
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Long-term debt outstanding at June 30, 2018 is comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
Michigan Municipal Bond Authority				
\$1,870K Series 2002B:				
Principal maturities from \$130K to \$145K	May 1, 2022	3.250 - 4.625	\$ 550,000	\$ 130,000
\$2,040K Series 2007A:				
Principal maturities from \$160K to \$180K	May 1, 2022	3.625 - 5.000	680,000	160,000
Local Emergency Financial Assistance Loan Board				
Emergency loan - 2012-13 Series I:				
Principal maturities from \$60K to \$70K	Nov. 1, 2026	1.80%	515,000	-
Emergency loan - 2013-14 Series I:				
Principal maturities from \$140K to \$170K	Nov. 1, 2026	2.65%	1,230,000	-
Emergency loan - 2014-15 Series I:				
Principal maturities from \$160K to \$190K	Nov. 1, 2026	2.35%	1,400,000	-
Emergency loan - 2015-16 Series I:				
Principal maturities from \$50K to \$350K	Nov. 1, 2031	1.75%	3,300,000	-
Emergency loan - 2016-17 Series I:				
Principal maturities from \$85K to \$695K	Nov. 1, 2031	1.75%	3,650,000	-
Capital Lease				
\$52,315 Copier Lease January 1, 2017:				
Annual maturities of \$13,079	Jan. 1, 2021	20.0%	32,729	13,079
Other Obligations				
Commercial Rehab Tax Due State of Michigan			655,893	-
Vacation leave			14,042	7,000
			<u>\$ 12,027,664</u>	<u>\$ 310,079</u>

On July 11, 2016 the District entered into revised repayment agreements for the three prior year emergency loans remaining unpaid at June 30, 2016 (2012-13 = \$515,000; 2013-14 = \$1,230,000; 2014-15 = \$1,400,000). Under the revised agreements, principal repayments are delayed until November 1, 2019 and extend to November 1, 2026, thus postponing the principal payments previously scheduled for November 2016 through November 2019. Interest expense will continue to be paid as scheduled on each loan at the previously agreed upon rates (1.80%, 2.65%, and 2.35%, respectively).

BENTON HARBOR AREA SCHOOLS
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The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2019	\$ 290,000	\$ 266,009	\$ 556,009
2020	660,000	249,996	909,996
2021	685,000	228,150	913,150
2022	840,000	205,015	1,045,015
2023	875,000	176,218	1,051,218
2024	895,000	158,293	1,053,293
2025	915,000	139,334	1,054,334
2026	930,000	120,607	1,050,607
2027	950,000	101,293	1,051,293
2028	970,000	82,814	1,052,814
2029	990,000	64,815	1,054,815
2030	1,005,000	46,801	1,051,801
2031	1,025,000	28,367	1,053,367
2032	1,045,000	9,570	1,054,570
	<u>\$ 12,075,000</u>	<u>\$ 1,877,283</u>	<u>\$ 13,952,283</u>

**NOTE: This amount includes the 2016-17 Emergency Loan of \$4,400,000. As of June 30, 2018, only \$3,650,000 had been drawn on this loan. The balance is available to be drawn down in fiscal year 2018-19.

Note H – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (the "System"), is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement system governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor, and the State Superintendent of Instruction, who serves as the ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

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The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of pension plans offered by MPSERS are detailed as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Membership

At September 30, 2017, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:		
Regular benefits		189,960
Survivor benefits		17,878
Disability benefits		6,151
Total		213,989
Inactive plan members entitled to but not yet receiving benefits:		18,004
Active plan members:		
Vested		101,574
Non-vested		102,407
Total		203,981
Total plan members		435,974

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

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Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Compensation plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

BENTON HARBOR AREA SCHOOLS
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Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: $FAC \times \text{total years of service} \times 1.5\%$

Option 2: $FAC \times 30 \text{ years of service} \times 1.5\% + FAC \times \text{years of service beyond 30} \times 1.25\%$

Option 3: $FAC \times \text{years of service as of transition date} \times 1.5\% + FAC \times \text{years of service after transition date} \times 1.25\%$

Option 4: $FAC \text{ as of transition date} \times \text{years of service as of transition date} \times 1.5\%$

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

A Basic Plan member may retire at:

- age 55 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service.

There is no mandatory retirement age.

Early Retirement

A MIP or Basic member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

The early retirement pension is computed in the same manner as the regular pension, but permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

BENTON HARBOR AREA SCHOOLS
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Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

BENTON HARBOR AREA SCHOOLS
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100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree’s death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree’s death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree’s death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree’s pension to decrease at age 62 by approximately the same amount as that person’s Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree’s death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. The Pension Plus plan provides for a survivor pension with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member’s death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers’ Compensation is being paid to the eligible beneficiary due to the member’s death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

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Post-Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability will be amortized over a 22 year period for the 2017 fiscal year.

The schedule below summarized pension contribution rate in effect for the plan fiscal year 2017.

Pension Contribution Rates:

Plan Name	Member	District
Member Investment Plan (MIP)	0.0 – 4.0%	19.03%
Basic	3.0 – 7.0 %	19.03%
Pension Plus	3.0 – 6.4%	18.40%
Defined Contribution	0.0%	15.27%

The District’s contributions to MPSERS under all pension plans for the year ended June 30, 2018, inclusive of the MSPERS UAAL Stabilization, totaled \$2,624,210.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	\$ 73,501,296
Plan Fiduciary Net Position	<u>47,011,783</u>
Net Pension Liability	<u>\$ 26,489,513</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.96%
Net Pension Liability as a Percentage of Covered Employee Payroll	313.37%
Total Covered Payroll	\$ 8,452,983

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2018, the District reported a liability of \$25,747,558 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of the pension contributions required from all applicable employers during the measurement period. At September 30, 2017 the District's proportion was .09935675%, which was a decrease from .13364039% at September 30, 2016.

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

For the year ended June 30, 2018, the District recognized pension expense of \$925,861. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 223,764	\$ 126,338
Changes of assumptions	2,820,850	—
Net difference between projected and actual earnings on pension plan investment earnings	—	1,230,903
Changes in proportion and differences between District contributions and proportionate share of contributions	89,615	5,314,491
District contributions subsequent to the measurement date*	<u>2,405,036</u>	<u>—</u>
Total	<u>\$ 5,539,265</u>	<u>\$ 6,671,732</u>

*This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

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

Year ended June 30	Amount
2019	\$ (1,273,832)
2020	(854,379)
2021	(989,556)
2022	(419,736)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	7.5%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5% - 12.3%, including wage inflation of 3.5%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males, and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017 is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers, 1.4186 for university employers].
- Recognition period for assets in years is 5.000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1%)
Real Estate & Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short-term Investment Pools	2.0%	(0.9%)
Total	100.0%	

* Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changed amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine the discount rate assumed that plan member 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. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

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 7.5% (7.0% for the Pension Plus plan), 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 or 1 percentage point higher:

	1% Decrease (Non-Hybrid/Hybrid) 6.5%/6.0%	Current Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5%/7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5%/8.0%
District's proportionate share of the net pension liability	\$ 33,540,504	\$ 25,747,558	\$ 19,186,393

Michigan Public School Employees Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System September 30, 2017 Comprehensive Annual Financial Report, available here: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employee Retirement System (MPERS)

Payables to the pension plan totaling \$405,258 at June 30, 2018 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note I – Other Postemployment Benefits

Plan Description

The Michigan Public School Employees' Retirement System (MPERS or "System") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Plan Participants

At September 30, 2017, the System's membership consisted of the following:

Eligible participants	211,051
Participants receiving benefits:	
Health	152,154
Dental/Vision	165,532
Vested plan members:	
Active	190,537
Non-active	2,349

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

BENTON HARBOR AREA SCHOOLS
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June 30, 2018

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017:

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0 %	5.69%

Required contributions to the OPEB plan from the District were \$552,224 for the year ended September 30, 2017.

Net OPEB Liability (in thousands)

Total OPEB Liability	\$ 14,175,547
Plan Fiduciary Net Position	<u>5,177,775</u>
Net OPEB Liability	<u>\$ 8,997,772</u>
Plan Fiduciary Net Position as a Percentage of	
Total OPEB Liability	36.53%
Net OPEB Liability as a Percentage of	
Covered Employee Payroll	106.44%
Total Covered Payroll	\$ 8,452,983

At June 30, 2018, the District reported a liability of \$8,849,139 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .09992859%.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$591,930. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ —	\$ 94,217
Changes of assumptions	—	—
Net difference between projected and actual earnings on OPEB plan investment earnings	—	204,948
Changes in proportion and differences between District contributions and proportionate share of contributions	144	—
District contributions subsequent to the measurement date*	517,564	—
Total	\$ 517,708	\$ 299,165

*This amount, reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	Amount
2019	\$ (72,262)
2020	(72,262)
2021	(72,262)
2022	(72,262)
2023	(9,973)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5% - 12.3%, including wage inflation of 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males, and 70% of the table rates were used for females.

Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Long-Term Expected Rate of Return on Investments

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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1%)
Real Estate & Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short-term Investment Pools	2.0%	(0.9%)
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member 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. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

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 7.5 percent, 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 or 1 percentage point higher:

	1% Decrease 6.5%	Current Discount Rate Assumption 7.5%	1% Increase 8.5%
District's proportionate share of the net OPEB liability	\$ 10,364,900	\$ 8,849,139	\$ 7,562,733

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
District's proportionate share of the net OPEB liability	\$ 7,494,032	\$ 8,849,139	\$ 10,387,770

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling \$69,388 at June 30, 2018 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note J – Risk Management and Benefits

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2017-18, and as of year ended June 30, 2018, there were no material pending claims against the District.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Note K – New Accounting Pronouncement Adopted

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was adopted by the District during the fiscal year ended June 30, 2018. This Statement replaces the requirements of GASB Statement No. 45 and the primary objective of this Statement is to improve accounting and reporting by state and local governments for postemployment benefits other than pensions (OPEB). Changes/additions to deferred outflows of resources, deferred inflows of resources and net OPEB liability required by the Statement decreased beginning net position by \$8,588,403 at July 1, 2017.

Note L – Stewardship, Compliance and Accountability

Fund Deficits – There was an accumulated fund deficit of \$4,425,383 in the General Fund at June 30, 2018. The Board has approved a 20-year Financial and Operating Plan to eliminate the General Fund. To help alleviate this deficit, the District entered into Emergency Temporary Economic Agreements with the District’s Education and Administrators Associations which took effect during the 2012-13 fiscal year. The District borrowed \$2,000,000 in Emergency Loan notes from the Local Emergency Financial Assistance Loan Board in September, 2012, and borrowed an additional \$2,000,000 loan in December, 2013 as part of its Deficit Elimination Plan. Additional Emergency Loan notes of \$1,400,000 and \$3,300,000 were borrowed in July 2015 and June 2016, respectively. During the year ended June 30, 2017 and June 30, 2018, the District borrowed an additional \$3,425,113 and \$600,000, respectively, in Emergency Loan notes.

Pursuant to his authority under P.A. 436 of 2012 (the "Act"), the State Superintendent of Education initiated a preliminary review of the finances of the District. Based upon the report that was issued as a result of the review, it was determined that probable financial stress did exist within the District. In response, acting under Section 7 of the Act on August 25, 2014, the Board of Education of the District adopted a resolution selecting the consent agreement option detailed in Section 8 of the Act to address the financial emergency. The Superintendent of the District and the Treasurer of the State of Michigan negotiated this agreement, which calls for financial and educational plans to be adopted in the year ending June 30, 2015, and for the years going forward until the District General Fund balance deficit is eliminated. The Consent Agreement became effective September 23, 2014, and the District has been providing the required documents to the Michigan Department of Treasury and Michigan Department of Education under the timelines established in the agreement. Under this agreement the Michigan Department of Treasury (“Treasury”) or the Michigan Department of Education (“MDE”) shall provide the District with the financial and technical assistance detailed the agreement. Under this agreement, the Superintendent of Benton Harbor Area Schools, or the Consultant, may apply for a loan from the State to the District, subject to conditions under the Emergency Municipal Loan Act, as necessary to implement the financial and operating plan.

A first amendment to the Consent Agreement between Benton Harbor Area Schools and the Michigan State Treasurer was approved in May 2016, which details specific financial, operational and educational improvements the District has pledged to make in the fiscal years ending June 30, 2016 through June 30, 2019. At its meeting on June 28, 2018, the District's Board of Education entered into an amended and restated consent agreement with the State Treasurer which went into effect July 17, 2018.

The District has an unrestricted net position deficit of \$50,745,567 and a total net position deficit of \$34,523,564 as of June 30, 2018. These deficit net positions result primarily from the net pension liability of \$26,880,025 (net of deferred outflows and inflows of resources related to the pension plan), the net OPEB liability of \$8,630,596 (net of deferred outflows and inflows of resources related to the OPEB plan), and the General Fund deficit of \$4,425,383.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2018

Note M – Subsequent Events

On August 20, 2018 the District issued \$6,300,000 of state aid revenue notes at 2.485% interest, due in full on August 20, 2019.

Note N – Extraordinary Item

On August 3, 2017 the District received notification that during 2012-2015 the City of Benton Harbor inadvertently distributed \$655,893 of payments relating to the commercial rehabilitation property taxes to Benton Harbor Area Schools that should have been distributed to the Michigan Department of Treasury. On October 26, 2017 the District was notified that this amount would not be forgiven by the State of Michigan. Repayment will be made over 5-9 years. As of June 30, 2018, a formal repayment schedule has not be approved.

Note O – Contingent Liabilities

Benton Harbor Area Schools is involved in several lawsuits. The ultimate disposition of these cases is not determinable at this time and no amounts have been provided in the financial statements at June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPERS Cost-sharing Multiple-employer Plan
June 30, 2018

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2018</u>
District's proportion of the net pension liability	0.13283958%	0.13364039%	0.11266575%	0.9935675%
District's proportionate share of the net pension liability	\$ 29,259,914	\$ 32,641,701	\$ 28,109,183	\$ 25,747,558
District's covered-employee payroll	\$ 12,787,083	\$ 12,574,056	\$ 8,264,955	\$ 8,253,114
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	228.82%	259.60%	340.10%	311.97%
Plan fiduciary net position as a percentage of the total pension liability	66.15%	62.92%	63.01%	64.21%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2018

	<u>Year Ended June 30, 2018</u>
District's proportion of the net OPEB liability	0.0999285%
District's proportionate share of the net OPEB liability	\$ 8,849,139
District's covered-employee payroll	\$ 8,253,114
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	107.22%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of District Pension Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2018**

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2018</u>
Contractually required contribution	\$ 3,423,622	\$ 2,722,008	\$ 2,748,898	\$ 2,624,210
Contributions in relation to the contractually required contribution	<u>3,423,622</u>	<u>2,722,008</u>	<u>2,748,898</u>	<u>2,624,210</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 12,635,213	\$ 8,748,210	\$ 8,251,055	\$ 7,803,881
Contributions as a percentage of covered employee payroll	27.10%	31.12%	33.32%	33.63%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of District OPEB Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2018

	<u>Year Ended June 30, 2018</u>
Contractually required contribution	\$ 552,224
Contributions in relation to the contractually required contribution	<u>552,224</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 7,803,881
Contributions as a percentage of covered employee payroll	7.08%

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Benton Harbor Area Schools
Notes to Required Supplementary Information
June 30, 2018

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2017-18.

Changes of assumptions: There were no changes of benefit assumptions in 2017-18.

Note B – Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2017-18.

Changes of assumptions: There were no changes of benefit assumptions in 2017-18.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

BENTON HARBOR AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018

	Special Revenue	Capital Projects		Total
	Food Service	2008 Building & Site Fund	2017 Sinking Fund	
Assets				
Cash	\$ 341	\$ -	\$ -	\$ 341
Cash equivalents, deposits and investments	315,528	1,205,645	1,364,949	2,886,122
Due from other funds	704,451	101,370	36,226	842,047
Due from other governmental units	237,447	-	-	237,447
Inventory	10,270	-	-	10,270
Total Assets	\$ 1,268,037	\$ 1,307,015	\$ 1,401,175	\$ 3,976,227
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 169,768	\$ -	\$ -	\$ 169,768
Due to other funds	12,554	153,339	101,370	267,263
Total Liabilities	182,322	153,339	101,370	437,031
Fund Balances				
Nonspendable	10,270	-	-	10,270
Restricted	1,075,445	1,153,676	1,299,805	3,528,926
Total Fund Balances	1,085,715	1,153,676	1,299,805	3,539,196
Total Liabilities and Fund Balances	\$ 1,268,037	\$ 1,307,015	\$ 1,401,175	\$ 3,976,227

BENTON HARBOR AREA SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2018

	Special Revenue	Capital Projects		Total
	Food Service	2008 Building & Site Fund	2017 Sinking Fund	
Revenues				
Local sources:				
Property taxes	\$ -	\$ 2,888	\$ 1,398,523	\$ 1,401,411
Interest earnings	2,058	3,467	2,712	8,237
Food sales	75,698	-	-	75,698
Other local revenue	-	-	97	97
Total local sources	77,756	6,355	1,401,332	1,485,443
State sources	56,062	-	-	56,062
Federal sources	1,786,182	-	-	1,786,182
Total Revenues	1,920,000	6,355	1,401,332	3,327,687
Expenditures				
Current:				
Supporting services	-	183,383	101,527	284,910
Food service	1,988,722	-	-	1,988,722
Capital outlay	-	90,265	-	90,265
Total Expenditures	1,988,722	273,648	101,527	2,363,897
Net Change in Fund Balances	(68,722)	(267,293)	1,299,805	963,790
Fund Balances, Beginning of Year	1,154,437	1,420,969	-	2,575,406
Fund Balances, End of Year	\$ 1,085,715	\$ 1,153,676	\$ 1,299,805	\$ 3,539,196

BENTON HARBOR AREA SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources	\$ 74,000	\$ 77,756	\$ 3,756
State sources	55,000	56,062	1,062
Federal sources	1,700,000	1,786,182	86,182
Total Revenues	<u>1,829,000</u>	<u>1,920,000</u>	<u>91,000</u>
Expenditures			
Food service	<u>2,575,800</u>	<u>1,988,722</u>	<u>587,078</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(746,800)</u>	<u>(68,722)</u>	<u>678,078</u>
Other Financing Uses			
Transfers Out	<u>(2,500)</u>	<u>-</u>	<u>2,500</u>
Net Change in Fund Balances	<u>(749,300)</u>	<u>(68,722)</u>	<u>680,578</u>
Fund Balances, Beginning of Year	<u>1,154,437</u>	<u>1,154,437</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 405,137</u></u>	<u><u>\$ 1,085,715</u></u>	<u><u>\$ 680,578</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

BENTON HARBOR AREA SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2018

	<u>Balances July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2018</u>
Assets				
Cash equivalents, deposits and investments	\$ 168,753	\$ 164,102	\$ 155,622	\$ 177,233
Due from other funds	-	52	-	52
Total Assets	<u>\$ 168,753</u>	<u>\$ 164,154</u>	<u>\$ 155,622</u>	<u>\$ 177,285</u>
Liabilities				
Accounts payable	\$ -	\$ 161,998	\$ 160,476	\$ 1,522
Due to other funds	9,974	21,383	131	31,226
Due to student groups	158,779	176,311	190,553	144,537
Total Liabilities	<u>\$ 168,753</u>	<u>\$ 359,692</u>	<u>\$ 351,160</u>	<u>\$ 177,285</u>