



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

Annual Financial Report

For the year ended June 30, 2022

BENTON HARBOR AREA SCHOOLS
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For the year ended June 30, 2022

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

December 27, 2022

The Board of Education
Benton Harbor Area Schools

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Benton Harbor Area Schools as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Benton Harbor Area Schools' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Benton Harbor Area Schools, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Benton Harbor Area Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Benton Harbor Area Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Benton Harbor Area Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Benton Harbor Area Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Benton Harbor Area Schools' basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Emphasis of Matter

Changes in Accounting Principle

As discussed in Note L to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* for the fiscal year ended June 30, 2022. Our opinion is not modified in respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2022, on our consideration of the Benton Harbor Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Benton Harbor Area Schools' 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, 2022



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, 2022. 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.

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 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, 2022



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 Pronouncement Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* during the fiscal year ended June 30, 2022. This Statement enhances the relevance and consistency of information about governments' leasing activities. See Note L for additional information.

Condensed District-wide Financial Information

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

	<u>2022</u>	<u>2021</u>
Assets		
Current assets	\$ 19,342,338	\$ 18,134,157
Net capital assets	<u>12,105,020</u>	<u>12,950,817</u>
Total Assets	<u>31,447,358</u>	<u>31,084,974</u>
Deferred Outflows of Resources	<u>9,940,398</u>	<u>10,415,741</u>
Liabilities		
Current liabilities	7,597,324	8,693,838
Long-term liabilities	11,270,666	11,772,916
Net pension liability	22,692,416	30,286,832
Net OPEB liability	<u>1,549,774</u>	<u>5,046,307</u>
Total Liabilities	<u>43,110,180</u>	<u>55,799,893</u>
Deferred Inflows of Resources	<u>14,523,728</u>	<u>6,460,956</u>
Net Position		
Net investment in capital assets	12,105,020	12,950,817
Restricted	8,279,033	6,861,799
Unrestricted (deficit)	<u>(36,630,205)</u>	<u>(40,572,750)</u>
Total Net Position	<u><u>\$ (16,246,152)</u></u>	<u><u>\$ (20,760,134)</u></u>

BENTON HARBOR AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2022



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:

	2022	2021
Program Revenues		
Charges for services	\$ 25,223	\$ 10,690
Operating grants	14,057,879	15,177,089
General Revenues		
Property taxes	8,265,304	8,238,694
State school aid, unrestricted	5,828,623	7,301,532
Interest earnings	11,210	34,461
Other	768,931	348,290
Total Revenues	28,957,170	31,110,756
Expenses		
Instruction	8,395,713	8,573,942
Supporting services	13,001,659	11,777,271
Community services	320,173	365,307
Food service	1,313,543	1,508,268
Other	-	54,599
Interest on long-term debt	179,537	243,886
Unallocated depreciation	1,232,563	1,236,281
Total Expenses	24,443,188	23,759,554
Change in Net Position	4,513,982	7,351,202
Net Position, Beginning of Year	(20,760,134)	(28,111,336)
Net Position, End of Year	\$ (16,246,152)	\$ (20,760,134)

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 approximately \$2.2 million to \$29 million. Property taxes and unrestricted State aid accounted for 49% of the District's revenue. Another 49% came from state and federal aid for specific programs, and the remaining revenue (3%) came from fees charged for services, interest earnings and other local sources.

The total cost of all programs and services increased by \$683,634 to \$24.4 million. The District's expenses are predominantly related to instructing, caring for (pupil services), and transporting students (53%). The District's administrative and business services accounted for 11%, and operation and maintenance services accounted for 10% of total District expenses. Principal and interest on long-term debt accounted for 3% of total District expenses.

BENTON HARBOR AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2022



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 provided in separate schedules that explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Custodial 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 the 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 \$25,527,217, total expenditures of \$24,696,922, and total other financing sources of \$62,993. The ending fund balance was \$4,072,306 at June 30, 2022, up from a fund balance of \$3,179,018 at June 30, 2021.

Capital Projects Fund

The District has one major Capital Projects Fund, the 2017 Building and Site Sinking Fund. Revenues for the fund totaled \$1,537,011, and total expenditures were \$46,985. The ending fund balance was \$6,729,628 at June 30, 2022, up from a fund balance of \$5,156,813 at June 30, 2021.

Nonmajor Funds

Special Revenue Fund

The District operates two Special Revenue Fund, the Food Service Fund and the Student/School Activity Fund. Total revenues were \$1,700,153, and total expenditures were \$1,542,941 and other financing uses were \$19,610. The fund balances at June 30, 2022 totaled \$1,429,635, up from a total fund balance of \$1,292,033 at June 30, 2021. Of the total fund balance at June 30, 2022, \$1,347,562 is attributed to the Food Service Fund and \$82,073 is attributed to the Student/School Activity Fund.

BENTON HARBOR AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2022



Capital Projects Fund

There is one nonmajor Capital Projects Fund, the 2007 Building and Site Sinking Fund. Revenues for the 2007 Building and Site Sinking Fund totaled \$66,617 and total expenditures were \$359,800. The ending fund balance was \$119,770 at June 30, 2022, down from a fund balance of \$412,953 at June 30, 2021.

General Fund Budgetary Highlights

Highlights for the 2021-22 fiscal year:

- The district was able to reduce expenditures by approximately \$3,000,000, resulting in a positive change in fund balance.
- The district was unable to recognize approximately \$5,000,000 in grant funds by June 30, 2022 because the state was not able to distribute funds timely, resulting in the district not recognizing the revenue that matched expenses in the 2021-22 year. These funds will be recognized in 2022-23, resulting in a major increase of \$5,000,000 added to the fund balance

Capital Asset and Debt Administration

Capital Assets

At June 30, 2022, the District had invested \$34.1 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 2021-22 capital additions totaled \$386,766 and total depreciation expense for the year was \$1,232,563. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

At June 30, 2022, the District's investment in capital assets (net of accumulated depreciation), decreased by \$845,797 from the previous year-end, and is detailed as follows:

Land	\$ 723,477
Buildings and improvements	10,600,859
Furniture and equipment	583,722
Buses and other vehicles	48,364
Site improvements	<u>148,598</u>
Net Capital Assets	<u><u>\$ 12,105,020</u></u>

BENTON HARBOR AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2022



Long-term Obligations

At year end, the District had total long-term obligations of \$11.85 million, which includes \$10,685,000 of emergency loans. (More detailed information about long-term obligations can be found in Note G in the Notes to Basic Financial Statements.)

- The District continued to pay down its debt, retiring \$516,714 of outstanding loans and other long-term debt.
- The District's other long-term obligation is for accumulated vacation leave. Vacation leave paid out amounted to \$99,041, while vacation leave earned totaled \$133,505.

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

Factors Bearing on the District's Future

When 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:

- Many economic factors affect the district's annual operating budget. One of the most important factors affecting revenue is the pair of blended student membership counts. Because the 2022-23 operating budget is a "roll forward" budget, the student count for the 2022-23 fiscal year was budgeted at the same level as the 2021-22 blended student membership level of 1,496 students. The district projected and historically experienced enrollment decline, which will significantly reduce the district's blended pupil membership for 2022-23, possibly by 70 or more student full-time equivalents. This is a significant drop in enrollment decline as compared with the past year, which was as high as 250 full-time equivalents. An enrollment decline of this magnitude could reduce membership aid by approximately \$609,000, compared to the 2021-22 fiscal year.
- Another important factor that affects the district's operating budget is the state "foundation allowance" amount per student. For 2022-23, the foundation allowance increased by \$450 per student. This increase, along with other State aid changes, will provide an estimated \$641,000, which is an actual \$32,000 in additional State aid revenue.
- Another positive change is the 8.2% increase in the property taxes or the equivalent of an additional \$546,927 in tax revenue to be collected. Even though the increase in tax collection is used to offset the amount of aid from the State it truly indicates a positive growth in the district's tax base.
- The district has increased its General Fund balance by \$893,288, a 28% increase to its final fund balance at June 30, 2022 to \$4,072,306, or 16% of total expenditures.

BENTON HARBOR AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2022



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, PO Box 1107, Benton Harbor, Michigan 49023. Contact by email: bryanlantz@bhas.org.

BASIC FINANCIAL STATEMENTS

BENTON HARBOR AREA SCHOOLS
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets	
Cash	\$ 180
Cash equivalents and deposits (Note B)	12,787,892
Accounts receivable	97,580
Due from other governmental units (Note C)	6,376,910
Inventory	54,348
Prepaid expenses	25,428
Capital assets not being depreciated (Note E)	723,477
Capital assets being depreciated, net (Note E)	11,381,543
Total Assets	31,447,358
Deferred Outflows of Resources	
Deferred pension amounts	6,984,059
Deferred OPEB amounts	2,956,339
Total Deferred Outflows of Resources	9,940,398
Liabilities	
Accounts payable	946,579
State aid anticipation loan (Note F)	3,040,000
Due to other governmental units	1,344,759
Accrued interest payable	27,777
Accrued expenses	295,506
Salaries payable	1,121,133
Unearned revenue	239,856
Long-term liabilities (Note G):	
Due within one year	581,714
Due in more than one year	11,270,666
Net pension liability	22,692,416
Net OPEB liability	1,549,774
Total Liabilities	43,110,180
Deferred Inflows of Resources	
Deferred pension amounts	8,271,895
Deferred OPEB amounts	6,251,833
Total Deferred Inflows of Resources	14,523,728
Net Position	
Net investment in capital assets	12,105,020
Restricted for:	
Capital projects	6,849,398
Food service	1,347,562
Student/school activity	82,073
Unrestricted (deficit)	(36,630,205)
Total Net Position	\$ (16,246,152)

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2022

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 8,395,713	\$ -	\$ 11,606,499	\$ 3,210,786
Supporting services	13,001,659	25,223	851,600	(12,124,836)
Community services	320,173	-	-	(320,173)
Food service	1,313,543	-	1,516,991	203,448
Interest on long-term debt	179,537	-	82,789	(96,748)
Unallocated depreciation*	1,232,563	-	-	(1,232,563)
Total Governmental Activities	\$ 24,443,188	\$ 25,223	\$ 14,057,879	(10,360,086)
General Revenues				
Taxes:				
Property taxes, levied for general operations				6,734,906
Property taxes, levied for capital improvements				1,530,398
State school aid, unrestricted				5,828,623
Interest and investment earnings				11,210
Other				768,931
Total General Revenues				14,874,068
Change in Net Position				4,513,982
Net Position - Beginning of Year				(20,760,134)
Net Position - End of Year				\$ (16,246,152)

*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, 2022

	General	2017 Building & Site Sinking	Nonmajor	Total
Assets				
Cash	\$ 180	\$ -	\$ -	\$ 180
Cash equivalents and deposits (Note B)	5,401,727	6,564,603	821,562	12,787,892
Accounts receivable	97,580	-	-	97,580
Due from other funds (Note D)	24,416	165,025	721,118	910,559
Due from other governmental units (Note C)	6,273,855	-	103,055	6,376,910
Inventory	42,882	-	11,466	54,348
Prepaid expenditures	25,428	-	-	25,428
Total Assets	\$ 11,866,068	\$ 6,729,628	\$ 1,657,201	\$ 20,252,897
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 863,214	\$ -	\$ 83,365	\$ 946,579
State aid anticipation note (Note F)	3,040,000	-	-	3,040,000
Due to other funds (Note D)	886,128	-	24,431	910,559
Due to other governmental units	1,344,759	-	-	1,344,759
Accrued interest payable	3,166	-	-	3,166
Accrued expenses	295,506	-	-	295,506
Salaries payable	1,121,133	-	-	1,121,133
Unearned revenue	239,856	-	-	239,856
Total Liabilities	7,793,762	-	107,796	7,901,558
Fund Balances (Note A)				
Nonspendable	68,310	-	11,466	79,776
Restricted	-	6,729,628	1,537,939	8,267,567
Unassigned	4,003,996	-	-	4,003,996
Total Fund Balances	4,072,306	6,729,628	1,549,405	12,351,339
Total Liabilities and Fund Balances	\$ 11,866,068	\$ 6,729,628	\$ 1,657,201	\$ 20,252,897

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2022

Total governmental fund balances		\$ 12,351,339
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 \$34,124,994 and accumulated depreciation is \$22,019,974.		12,105,020
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:		
Commercial rehab tax due	\$ (655,893)	
State of Michigan supplemental payment	(380,139)	
Emergency municipal loans	(10,685,000)	
Vacation leave	<u>(131,348)</u>	(11,852,380)
Accrued interest is not included as a liability in governmental funds.		(24,611)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(22,692,416)	
Deferred outflows	6,984,059	
Deferred inflows	<u>(8,271,895)</u>	(23,980,252)
Net OPEB liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB liability	(1,549,774)	
Deferred outflows	2,956,339	
Deferred inflows	<u>(6,251,833)</u>	(4,845,268)
Total net position - governmental activities		<u><u>\$ (16,246,152)</u></u>

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2022

	General	2017 Building & Site Sinking	Nonmajor	Total
Revenues				
Local sources	\$ 7,240,495	\$ 1,537,011	\$ 249,779	\$ 9,027,285
State sources	10,829,680	82,789	71,768	10,984,237
Federal sources	7,033,624	-	1,445,223	8,478,847
Interdistrict sources	423,418	-	-	423,418
Total Revenues	25,527,217	1,619,800	1,766,770	28,913,787
Expenditures				
Current:				
Instruction	9,380,553	-	-	9,380,553
Supporting services	14,196,144	27,979	131,929	14,356,052
Community services	409,801	-	-	409,801
Food service	-	-	1,439,122	1,439,122
Capital outlay	-	19,006	331,690	350,696
Debt service:				
Principal repayment	516,714	-	-	516,714
Interest and fiscal charges	193,710	-	-	193,710
Total Expenditures	24,696,922	46,985	1,902,741	26,646,648
Excess (Deficiency) of Revenues Over Expenditures	830,295	1,572,815	(135,971)	2,267,139
Other Financing Sources (Uses)				
Other transactions	62,993	-	(19,610)	43,383
Net Change in Fund Balances	893,288	1,572,815	(155,581)	2,310,522
Fund Balances, Beginning of Year	3,179,018	5,156,813	1,704,986	10,040,817
Fund Balances, End of Year	\$ 4,072,306	\$ 6,729,628	\$ 1,549,405	\$12,351,339

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2022

Net change in fund balances - total governmental funds **\$ 2,310,522**

Amounts reported for governmental activities in the Statement of Activities are different because:

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:

Capital outlays	\$ 386,766	
Depreciation expense	<u>(1,232,563)</u>	(845,797)

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 emergency municipal loans	390,000	
Repayment of supplemental payments	<u>126,714</u>	516,714

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.

14,173

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 earned (\$133,505) exceeded the amounts used/paid (\$99,041).

(34,464)

The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds:

926,899

The changes in net OPEB liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds:

1,625,935

Total changes in net position - governmental activities

\$4,513,982

BENTON HARBOR AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ 7,162,700	\$ 7,230,263	\$ 7,240,495	\$ 10,232
State sources	11,760,000	10,609,048	10,829,680	220,632
Federal sources	9,250,000	12,587,271	7,033,624	(5,553,647)
Interdistrict sources	177,300	423,418	423,418	-
Total Revenues	<u>28,350,000</u>	<u>30,850,000</u>	<u>25,527,217</u>	<u>(5,322,783)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	6,984,491	6,635,144	5,931,291	703,853
Added needs	4,690,467	3,742,579	3,316,262	426,317
Adult education	114,000	114,000	133,000	(19,000)
Supporting services:				
Pupil services	2,233,131	2,344,166	2,215,384	128,782
Instructional staff services	2,765,574	4,096,226	3,506,973	589,253
General administrative services	481,875	515,075	500,546	14,529
School administrative services	1,707,881	1,396,559	1,441,083	(44,524)
Business services	993,106	923,775	667,010	256,765
Operation and maintenance services	2,471,763	2,706,134	2,472,023	234,111
Pupil transportation services	1,380,267	1,743,204	1,601,126	142,078
Central services	1,482,945	1,535,553	1,320,062	215,491
Other supporting services	507,973	566,465	471,937	94,528
Community services	393,327	522,420	409,801	112,619
Debt service:				
Principal repayment	468,000	540,000	516,714	23,286
Interest and fiscal charges	335,200	293,700	193,710	99,990
Total Expenditures	<u>27,010,000</u>	<u>27,675,000</u>	<u>24,696,922</u>	<u>2,978,078</u>
Excess of Revenues Over Expenditures	<u>1,340,000</u>	<u>3,175,000</u>	<u>830,295</u>	<u>(2,344,705)</u>
Other Financing Sources				
Other transactions	(65,000)	-	62,993	62,993
Net Change in Fund Balances	<u>1,275,000</u>	<u>3,175,000</u>	<u>893,288</u>	<u>(2,281,712)</u>
Fund Balances, Beginning of Year	<u>3,179,018</u>	<u>3,179,018</u>	<u>3,179,018</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 4,454,018</u></u>	<u><u>\$ 6,354,018</u></u>	<u><u>\$ 4,072,306</u></u>	<u><u>\$ (2,281,712)</u></u>

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2022

	Private Purpose Trust
Assets	
Cash equivalents, deposits and investments (Note B)	<u>\$ 102,768</u>
Liabilities	
	<u>-</u>
Net Position	
Restricted for:	
Individuals and organizations	<u><u>\$ 102,768</u></u>

See accompanying notes to basic financial statements.

BENTON HARBOR AREA SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2022

	Private Purpose Trust
Additions	
Other revenues	\$ 7,175
Deductions	-
Change in Fiduciary Net Position	7,175
Net Position, Beginning of Year	95,593
Net Position, End of Year	\$ 102,768

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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 1,483 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.

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 resources 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 position, and unrestricted net position.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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 funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the 2017 Sinking fund are the District's major funds. Nonmajor 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*. 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 uses 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, 2022

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 Funds maintained by the District are the Food Service Fund and the Student/School Activity 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 Fund

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.

Custodial Funds – The Custodial Fund accounts for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. The District presently maintains funds held for the benefit of scholarship recipients.

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 expenditure budget may occur without a corresponding amendment to the budget.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

A school board 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 board 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 which the Board approves the budget. All appropriations lapse at the end of the fiscal year.

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

- In the spring, District administrative personnel and department heads work with the CFO 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 Special Revenue Funds 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.

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 custodial supplies, while inventories of the Food Service Fund consist of food, and 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.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

8. Capital Assets

Capital assets, which include land, site improvements, 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. 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, furniture and equipment, and site improvements 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
Site improvements	10 - 20 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, 2022 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 permits a limited number of vacation days earned during the year to be carried forward to the next fiscal year, and these unused vacation days are included in this computation. At June 30, 2022, the accumulated liability, including salary related payments, (expected to be financed by General Fund revenues) for accumulated vacation leave amounted to \$131,348.

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.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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 actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also 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.

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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 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 actuarial 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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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 of resources relating to the recognition of net pension liability on the financial statements and the deferred outflows 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, 2022

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 an 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.

14. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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.

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.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

Balances at June 30, 2022 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental Activities	\$ 12,778,928
Fiduciary Funds	<u>102,768</u>
	<u>\$ 12,881,696</u>

Cash Equivalents and Deposits

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

1. Huntington Bank
2. Horizon Bank

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

June 30, 2022 balances are detailed as follows:

Cash equivalents	\$ 4,763,776
Deposits	<u>8,117,920</u>
	<u>\$ 12,881,696</u>

Custodial Credit Risk Related to Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's bank deposits may not be returned to the District. Protection of District bank deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$12,881,696 and the bank balance was \$13,349,424. Of the bank balance, \$500,000 was covered by federal depository insurance and \$12,849,424 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.

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.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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.

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 2021 and October 2021. The 2021-22 "Foundation Allowance" for Benton Harbor Area Schools was \$8,700 for 1,496 "Full Time Equivalent" students, generating \$10,008,225 in State aid payments to the District of which \$1,983,040 was paid to the District in July and August 2022 and included as "Due From Other Governmental Units" of the General Fund and the Food Service Special Revenue Fund at June 30, 2022.

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.

BENTON HARBOR AREA SCHOOLS
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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 intermediate school district.

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 NPRES.

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 (NPRES) 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, 2022, the District's property tax revenues were reduced by approximately \$286,103 under these agreements.

BENTON HARBOR AREA SCHOOLS
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Note D – Interfund Receivables/Payables and Transfers

Amounts due from/to other funds representing interfund receivables and payables for unreimbursed 2021-22 expenditures at June 30, 2022 are detailed as follows:

<u>Major Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ -	\$ 721,118
Student/School Activity Fund	17,466	-
Capital Projects Funds:		
2007 Building and Site Sinking Fund	6,950	-
2017 Sinking Fund	-	165,010
Capital Projects Fund:		
2017 Sinking Fund:		
General Fund	165,010	-
2007 Building and Site Sinking Fund	15	-
	<u>189,441</u>	<u>886,128</u>
Total Major Fund		
	<u>189,441</u>	<u>886,128</u>
<u>Nonmajor Funds</u>		
Special Revenue Funds:		
Food Service Fund:		
General Fund	721,118	-
Student/School Activity Fund:		
General Fund	-	17,466
Capital Projects Fund:		
2007 Building and Site Sinking Fund:		
General Fund	-	6,950
2017 Sinking Fund	-	15
	<u>721,118</u>	<u>24,431</u>
Total Nonmajor Funds		
	<u>721,118</u>	<u>24,431</u>
Total All Funds	<u><u>\$ 910,559</u></u>	<u><u>\$ 910,559</u></u>

There were no operating transfers between funds during the year ended June 30, 2022.

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Note E – Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balances July 1, 2021	Additions	Deductions	Balances June 30, 2022
Capital assets not depreciated:				
Land	\$ 723,477	\$ -	\$ -	\$ 723,477
Capital assets being depreciated:				
Buildings and improvements	30,677,415	\$ 320,363	\$ -	30,997,778
Furniture and equipment	1,735,738	-	-	1,735,738
Buses and other vehicles	210,743	41,257	-	252,000
Site improvements	390,855	25,146	-	416,001
Total capital assets being depreciated	33,014,751	\$ 386,766	\$ -	33,401,517
Less accumulated depreciation for:				
Buildings and improvements	19,312,525	\$ 1,084,394	\$ -	20,396,919
Furniture and equipment	1,051,637	100,379	-	1,152,016
Buses and other vehicles	180,740	22,896	-	203,636
Site improvements	242,509	24,894	-	267,403
Total accumulated depreciation	20,787,411	\$ 1,232,563	\$ -	22,019,974
Total capital assets being depreciated, net	12,227,340			11,381,543
Net Capital Assets	\$ 12,950,817			\$ 12,105,020

Depreciation expense for the District was \$1,232,563. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
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Note F – Short-term Debt

On August 20, 2020, the District borrowed \$4,670,000 (interest at 0.70%) in anticipation of State aid. The note, plus interest, was paid on August 20, 2021.

On August 20, 2021, the District borrowed \$3,040,000 (interest at 0.12%) in anticipation of State aid. The note, plus interest, is due on August 22, 2022.

Interest expense and amortized issuance costs on the loans totaled \$22,303 in 2021-22.

	Debt Outstanding July 1, 2021	Debt Added	Debt Retired	Debt Outstanding June 30, 2022
State Aid Anticipation Loans	\$ 4,670,000	\$ 3,040,000	\$ 4,670,000	\$ 3,040,000

Note G – Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2022 are summarized as follows:

	Debt Outstanding July 1, 2021	Debt Added	Debt Retired	Debt Outstanding June 30, 2022
Michigan Municipal Bond Authority:				
Series 2002B	\$ 145,000	\$ -	\$ 145,000	\$ -
Series 2007A	180,000	-	180,000	-
Amended and Restated Emergency Loan	10,750,000	-	65,000	10,685,000
Commercial Rehab Tax Due State of Michigan	655,893	-	-	655,893
State of Michigan Supplemental Payment	506,853	-	126,714	380,139
Vacation leave	96,884	133,505	99,041	131,348
	<u>\$ 12,334,630</u>	<u>\$ 133,505</u>	<u>\$ 615,755</u>	<u>\$ 11,852,380</u>

BENTON HARBOR AREA SCHOOLS
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Long-term obligations outstanding at June 30, 2022 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
Local Emergency Financial Assistance Loan Board				
Emergency loan notes:				
Principal maturities from \$360K to \$545K	Nov. 1, 2045	1.20 - 1.40%	\$ 10,685,000	\$ 380,000
Other Obligations				
Commercial Rehab Tax Due State of Michigan			655,893	-
State of Michigan Supplemental Payment			380,139	126,714
Vacation leave			131,348	75,000
			<u>\$ 11,852,380</u>	<u>\$ 581,714</u>

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, 2022, a formal repayment schedule has not been approved.

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

June 30	Principal	Interest	Total
2023	\$ 380,000	\$ 143,822	\$ 523,822
2024	360,000	138,903	498,903
2025	365,000	133,606	498,606
2026	370,000	128,807	498,807
2027	380,000	123,715	503,715
2028	385,000	118,678	503,678
2029	395,000	113,091	508,091
2030	400,000	107,918	507,918
2031	410,000	102,490	512,490
2032	420,000	97,055	517,055
2033	430,000	91,098	521,098
2034	435,000	85,426	520,426
2035	445,000	79,435	524,435
2036	455,000	73,317	528,317
2037	460,000	66,801	526,801
2038	470,000	60,469	530,469
2039	480,000	53,908	533,908
2040	490,000	47,268	537,268
2041	505,000	40,274	545,274
2042	505,000	33,354	538,354
2043	525,000	26,238	551,238
2044	530,000	18,973	548,973
2045	545,000	11,456	556,456
2046	545,000	3,846	548,846
	<u>\$ 10,685,000</u>	<u>\$ 1,899,948</u>	<u>\$ 12,584,948</u>

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Note H – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) (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 (1980 PA 300 as amended).

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.

The System's financial statements are available 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 MPERS are detailed as follows:

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Defined Contribution	Defined Contribution	Open
Pension Plus 2	Hybrid	Open

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. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. 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.

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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.

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 4.3% 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 Contribution 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 will 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).

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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.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 contribution share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 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 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: $\text{FAC} \times \text{total years of service} \times 1.5\%$

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

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

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

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 may retire at age 60 with 10 or more years of credited service.

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A Pension Plus 2 member may retire at age 60 with 10 or more years of credited service. Section 81c(5) of PA 300 as amended requires the regular retirement age to be increased in whole year increments based on the results of mortality analysis five-year actuarial experience studies performed after October 1, 2019 and the actuarial funding status of the plan. If the regular retirement age for Pension Plus 2 members is increased in accordance with this provision, members within five years of retirement from the effective date of the increase are automatically exempted and the retirement board may additionally authorize those between five and eight years of the then current retirement age to be exempted.

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of 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 pension is computed in the same manner as a regular pension but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

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 2% for each year retired; first year 100%, next year 102%, etc.).

BENTON HARBOR AREA SCHOOLS
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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.).

Pension Payment Options

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 beneficiaries.

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.

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.

BENTON HARBOR AREA SCHOOLS
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Equated Plan – For MIP and Basic members, 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. 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.

Postemployment 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 3% 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 adjustments.

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Notes to Basic Financial Statements
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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 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 costs are funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for the plan fiscal year 2021.

Pension Contribution Rates:		
Plan Name	Member	District
Basic	0.0 – 4.0 %	19.78%
Member Investment Plan (MIP)	3.0 – 7.0%	19.78%
Pension Plus	3.0 – 6.4 %	16.82%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2022, inclusive of the MSPERS UAAL Stabilization, totaled \$3,292,708.

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	\$ 87,569,422
Plan Fiduciary Net Position	<u>63,332,155</u>
Net Pension Liability	<u>\$ 24,237,267</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.32%
Net Pension Liability as a Percentage of Covered Employee Payroll	261.49%
Total Covered Payroll	\$ 9,269,004

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2022, the District reported a liability of \$22,692,416 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District's proportion was 0.09584803%, which was an increase from 0.08816848% at September 30, 2020.

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

For the year ended June 30, 2022, the District recognized pension expense of \$2,065,697. At June 30, 2022, 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	\$ 351,515	\$ 133,631
Changes of assumptions	1,430,449	—
Net difference between projected and actual earnings on pension plan investments	—	7,295,539
Changes in proportion and differences between District contributions and proportionate share of contributions	2,130,238	842,725
District contributions subsequent to the measurement date*	3,071,857	—
Total	\$ 6,984,059	\$ 8,271,895

* 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, 2023.

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
2023	\$ (583,858)
2024	(837,759)
2025	(1,190,060)
2026	(1,748,016)

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	6.80% net of investment expenses
Pension Plus Plan (Hybrid):	6.80% net of investment expenses
Pension Plus 2:	6.00% net of investment expenses
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, 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: [4.4892 for non-university employers].
- Recognition period for assets in years: 5.0000.
- Full actuarial assumptions are available in the 2021 MPSERS Annual Comprehensive Financial Report found on the ORS website at (www.michigan.gov/orsschools).

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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, 2021 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0%	9.1%
International Equity Pools	15.0%	7.5%
Fixed Income Pools	10.5%	(0.7)%
Real Estate and Infrastructure Pools	10.0%	5.4%
Absolute Return Pools	9.0%	2.6%
Real Return/Opportunistic Pools	12.5%	6.1%
Short-term Investment Pools	2.0%	(1.3)%
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 27.3%. 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 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 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 these 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, 2022

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 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 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 5.8%/5.8%/5.0%	Current Single Discount Rate Assumption 6.8%/6.8%/6.0%	1% Increase 7.8%/7.8%/7.0%
District's proportionate share of the net pension liability	\$32,444,001	\$22,692,416	\$14,607,713

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, 2021 Annual Comprehensive Financial Report, available here: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employees' Retirement System (MPERS)

Payables to the pension plan totaling \$551,069 at June 30, 2022 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, 2022

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.

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.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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 costs are funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2021:

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	8.43%
Personal Healthcare Fund (PHF)	0.0 %	7.57%

Required contributions to the OPEB plan from the District were \$779,483 for the year ended June 30, 2022.

Net OPEB Liability (in thousands)

Total OPEB Liability	\$ 12,225,697
Plan Fiduciary Net Position	<u>10,742,198</u>
Net OPEB Liability	<u>\$ 1,483,499</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	87.87%
Net OPEB Liability as a Percentage of Covered Employee Payroll	16.00%
Total Covered Payroll	\$ 9,269,004

Proportionate Share of Reporting Unit's Net OPEB Liability

At June 30, 2022, the District reported a liability of \$1,549,774 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District's proportion was 0.10153277%, which was an increase from 0.09419555% at September 30, 2020.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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

For the year ended June 30, 2022, the District recognized an OPEB credit of \$889,551. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ —	\$ 4,423,719
Changes of assumptions	1,295,534	193,860
Net difference between projected and actual earnings on OPEB plan investments	—	1,168,092
Changes in proportion and differences between District contributions and proportionate share of contributions	981,292	466,162
District contributions subsequent to the measurement date*	<u>679,513</u>	<u>—</u>
Total	<u><u>\$ 2,956,339</u></u>	<u><u>\$ 6,251,833</u></u>

* 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, 2023.

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
2023	\$ (1,191,243)
2024	(1,022,719)
2025	(808,844)
2026	(696,044)
2027	(226,448)
Thereafter	(29,709)

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, 2022

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95% net of investment expense
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Healthcare Cost Trend Rate:	Pre-65 - 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65 - 5.25% Year 1 graded to 3.50% Year 15; 3.0% Year 120
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
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 one or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, 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: [5.6018 for non-university employers].
- Recognition period for assets in years: 5.0000.
- Full actuarial assumptions are available in the 2021 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

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, 2021, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0%	9.1%
International Equity Pools	15.0%	7.5%
Fixed Income Pools	10.5%	(0.7)%
Real Estate and Infrastructure Pools	10.0%	5.4%
Absolute Return Pools	9.0%	2.6%
Real Return/Opportunistic Pools	12.5%	6.1%
Short-term Investment Pools	2.0%	(1.3)%
Total	100.0%	

* Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 27.14%. 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 6.95% 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 6.95%. 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, 2022

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 6.95 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 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
District's proportionate share of the net OPEB liability	\$2,879,759	\$1,549,774	\$421,091

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	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$377,203	\$1,549,774	\$2,869,057

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling \$120,002 at June 30, 2022 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 2021-22, and as of year ended June 30, 2022, there were no material pending claims against the District.

BENTON HARBOR AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2022

Note K – Stewardship, Compliance and Accountability

The District has an unrestricted net position deficit of \$36,630,205 and a total net position deficit of \$16,246,152 as of June 30, 2022. These deficit net positions result primarily from the net pension liability of \$23,980,252 (net of deferred outflows and inflows of resources related to the pension plan), and the net OPEB liability of \$4,845,268 (net of deferred outflows and inflows of resources related to the OPEB plan).

Note L – New Accounting Pronouncement Adopted

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* was adopted by the District during the fiscal year ending June 30, 2022. This statement enhances the relevance and consistency of information about governments' leasing activities by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District was not required to recognize a right-to-use lease asset or lease liability as of July 1, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	<u>Year Ended June 30, 2022</u>	<u>Year Ended June 30, 2021</u>	<u>Year Ended June 30, 2020</u>
District's proportion of the net pension liability	0.09584803%	0.08816848%	0.08589687%
District's proportionate share of the net pension liability	\$ 22,692,416	\$ 30,286,832	\$ 28,446,155
District's covered-employee payroll	\$ 9,375,069	\$ 8,442,425	\$ 7,442,214
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	242.05%	358.75%	382.23%
Plan fiduciary net position as a percentage of the total pension liability	72.60%	59.72%	60.31%

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.

See accompanying notes to required supplementary information.

<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>
0.09335123%	0.09935675%	0.11266575%	0.13364039%	0.13283958%
\$ 28,063,065	\$ 25,747,558	\$ 28,109,183	\$ 32,641,701	\$ 29,259,914
\$ 7,593,588	\$ 8,253,114	\$ 8,264,955	\$ 12,574,056	\$ 12,787,083
369.56%	311.97%	340.10%	259.60%	228.82%
62.36%	64.21%	63.01%	62.92%	66.15%

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, 2022

	<u>Year Ended June 30, 2022</u>	<u>Year Ended June 30, 2021</u>
District's proportion of the net OPEB liability	0.10153277%	0.09419555%
District's proportionate share of the net OPEB liability	\$ 1,549,774	\$ 5,046,307
District's covered-employee payroll	\$ 9,375,069	\$ 8,442,425
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	16.53%	59.77%
Plan fiduciary net position as a percentage of the total OPEB liability	87.33%	59.44%

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.

See accompanying notes to required supplementary information.

<u>Year Ended June 30, 2020</u>	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
0.08500064%	0.08917497%	0.09992850%
\$ 6,101,132	\$ 7,088,475	\$ 8,849,139
\$ 7,442,214	\$ 7,593,588	\$ 8,253,114
81.98%	93.35%	107.22%
48.46%	43.10%	36.39%

BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of District Pension Contributions
MPERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020
Contractually required contribution	\$ 3,292,708	\$ 3,086,213	\$ 2,403,871
Contributions in relation to the contractually required contribution	<u>3,292,708</u>	<u>3,086,213</u>	<u>2,403,871</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 9,150,361	\$ 9,152,621	\$ 8,085,121
Contributions as a percentage of covered employee payroll	35.98%	33.72%	29.73%

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.

<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>
\$ 2,360,164	\$ 2,624,210	\$ 2,748,898	\$ 2,722,008	\$ 3,423,622
<u>2,360,164</u>	<u>2,624,210</u>	<u>2,748,898</u>	<u>2,722,008</u>	<u>3,423,622</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,502,898	\$ 7,803,881	\$ 8,251,055	\$ 8,748,210	\$ 12,635,213
31.46%	33.63%	33.32%	31.12%	27.10%

BENTON HARBOR AREA SCHOOLS
Required Supplementary Information
Schedule of District OPEB Contributions
MPERS Cost-sharing Multiple-employer Plan
June 30, 2022

	<u>Year Ended June 30, 2022</u>	<u>Year Ended June 30, 2021</u>
Contractually required contribution	\$ 779,483	\$ 776,627
Contributions in relation to the contractually required contribution	<u>779,483</u>	<u>776,627</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 9,150,361	\$ 9,152,621
Contributions as a percentage of covered employee payroll	8.52%	8.49%

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.

<u>Year Ended June 30, 2020</u>	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
\$ 671,950	\$ 621,417	\$ 552,224
<u>671,950</u>	<u>621,417</u>	<u>552,224</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,085,121	\$ 7,502,898	\$ 7,803,881
8.31%	8.28%	7.08%

BENTON HARBOR AREA SCHOOLS
Notes to Required Supplementary Information
June 30, 2022

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2021-22.

Changes of assumptions: There were no changes of benefit assumptions in 2021-22.

Note B – Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2021-22.

Changes of assumptions: There were no changes of benefit assumptions in 2021-22.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

BENTON HARBOR AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2022

	Special Revenue		Capital Projects 2007	Total
	Food Service	Student/School Activity	Building & Site Sinking	
Assets				
Cash equivalents and deposits	\$ 591,731	\$ 103,096	\$ 126,735	\$ 821,562
Due from other funds	721,118	-	-	721,118
Due from other governmental units	103,055	-	-	103,055
Inventory	11,466	-	-	11,466
Total Assets	<u>\$ 1,427,370</u>	<u>\$ 103,096</u>	<u>\$ 126,735</u>	<u>\$ 1,657,201</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 79,808	\$ 3,557	\$ -	\$ 83,365
Due to other funds	-	17,466	6,965	24,431
Total Liabilities	<u>79,808</u>	<u>21,023</u>	<u>6,965</u>	<u>107,796</u>
Fund Balances				
Nonspendable	11,466	-	-	11,466
Restricted	1,336,096	82,073	119,770	1,537,939
Total Fund Balances	<u>1,347,562</u>	<u>82,073</u>	<u>119,770</u>	<u>1,549,405</u>
Total Liabilities and Fund Balances	<u>\$ 1,427,370</u>	<u>\$ 103,096</u>	<u>\$ 126,735</u>	<u>\$ 1,657,201</u>

BENTON HARBOR AREA SCHOOLS
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2022

	Special Revenue		Capital Projects 2007	
	Food Service	Student/School Activity	Building & Site Fund	Total
Revenues				
Local sources:				
Interest earnings	\$ 835	\$ -	\$ 159	\$ 994
Other local sources	40,548	141,779	66,458	248,785
Total local sources	41,383	141,779	66,617	249,779
State sources	71,768	-	-	71,768
Federal sources	1,445,223	-	-	1,445,223
Total Revenues	1,558,374	141,779	66,617	1,766,770
Expenditures				
Current:				
Supporting services	-	103,819	28,110	131,929
Food service	1,439,122	-	-	1,439,122
Capital outlay	-	-	331,690	331,690
Total Expenditures	1,439,122	103,819	359,800	1,902,741
Excess (Deficiency) of Revenues Over Expenditures	119,252	37,960	(293,183)	(135,971)
Other Financing Uses				
Other transactions	(19,610)	-	-	(19,610)
Net Change in Fund Balances	99,642	37,960	(293,183)	(155,581)
Fund Balances, Beginning of Year	1,247,920	44,113	412,953	1,704,986
Fund Balances, End of Year	\$ 1,347,562	\$ 82,073	\$ 119,770	\$ 1,549,405

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, 2022

	Budget	Actual	Variance
Revenues			
Local sources	\$ 40,500	\$ 41,383	\$ 883
State sources	29,000	71,768	42,768
Federal sources	1,430,500	1,445,223	14,723
Total Revenues	<u>1,500,000</u>	<u>1,558,374</u>	<u>58,374</u>
Expenditures			
Food service	<u>1,367,500</u>	<u>1,439,122</u>	<u>(71,622)</u>
Excess of Revenues Over Expenditures	132,500	119,252	129,996
Other Financing Uses			
Other transactions	<u>(7,500)</u>	<u>(19,610)</u>	<u>(12,110)</u>
Net Change in Fund Balance	125,000	99,642	117,886
Fund Balances, Beginning of Year	<u>1,247,920</u>	<u>1,247,920</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 1,372,920</u></u>	<u><u>\$ 1,347,562</u></u>	<u><u>\$ 117,886</u></u>

BENTON HARBOR AREA SCHOOLS
Student/School Activity Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources	<u>\$ 160,000</u>	<u>\$ 141,779</u>	<u>\$ (18,221)</u>
Expenditures			
Other student/school activity	<u>100,000</u>	<u>103,819</u>	<u>(3,819)</u>
Excess of Revenues Over Expenditures	60,000	37,960	(22,040)
Fund Balances, Beginning of Year	<u>44,113</u>	<u>44,113</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 104,113</u></u>	<u><u>\$ 82,073</u></u>	<u><u>\$ (22,040)</u></u>