Berrien Regional Education Service Agency

Financial Report
with Supplemental Information
June 30, 2019

Contents

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Independent Auditor's Report

To the Board of Education
Berrien Regional Education Service Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Regional Education Service Agency (the "Agency") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Berrien Regional Education Service Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Regional Education Service Agency as of June 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education
Berrien Regional Education Service Agency

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, the schedules of the Agency's proportionate share of the MPSERS net pension and OPEB liabilities, and the schedules of the Agency's pension and OPEB contributions to MPSERS be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019 on our consideration of Berrien Regional Education Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to 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 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 Berrien Regional Education Service Agency's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 17, 2019

This section of Berrien Regional Education Service Agency's (the "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2019. Please read it in conjunction with the Agency's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Berrien Regional Education Service Agency financially as a whole. The government-wide financial statements provide information about the activities of the whole Agency, presenting both an aggregate view of the Agency's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements look at the Agency's operations in more detail than the government-wide financial statements by providing information about the Agency's most significant funds - the General Fund and the Special Education Fund - as well as information on the Agency's Internal Service Fund, with all other funds presented in one column as nonmajor funds. The Agency's proprietary Internal Service Fund is reported separately from the governmental funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the Agency acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Funds

Schedule of the Agency's Proportionate Share of the Net Pension Liability

Schedule of Pension Contributions

Schedule of the Agency's Proportionate Share of the Net OPEB Liability

Schedule of OPEB Contributions

Reporting the Agency as a Whole - Government-wide Financial Statements

One of the most important questions asked about the Agency is, "As a whole, what is the Agency's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Agency's financial statements, report information on the Agency as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Agency's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Agency's operating results. However, the Agency's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Agency.

The statement of net position and the statement of activities report the governmental activities for the Agency, which encompass all of the Agency's services, including instruction, support services, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Agency's Fund Financial Statements

The Agency's fund financial statements provide detailed information about the most significant funds, not the Agency as a whole. Some funds are required to be established by state law and by bond covenants. However, the Agency establishes many other funds to help it control and manage money for particular purposes (the School Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental Funds

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Agency and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

Proprietary Funds

Proprietary fund reporting focuses on the economic resources measurement and an accounting method called full accrual accounting. The proprietary fund statements present a long-term view of operations and the services it provides to other funds. The Agency established a proprietary fund, specifically the Internal Service Fund, to finance specific services provided to other funds of the Agency on a cost-reimbursement basis. The specific services represent health insurance benefits.

Reporting the Agency's Fiduciary Responsibilities

The Agency has certain fiduciary responsibilities for its student activity funds. All of the Agency's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the Agency's other financial statements because the Agency cannot use these assets to finance its operations. The Agency is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Agency as a Whole

Recall that the statement of net position provides the perspective of the Agency as a whole. The following table provides a summary of the Agency's net position as of June 30, 2019 and 2018:

	Governmental Activities	
	2019	2018
	(in millions)	
Assets		
Current and other assets	$ 21.8	$ 24.9
Capital assets	13.7	9.2
Total assets	35.5	34.1
Deferred Outflows of Resources	23.1	13.8
Liabilities		
Current liabilities	7.2	7.2
Noncurrent liabilities	0.6	0.6
Net pension liability	55.0	46.4
Net OPEB liability	14.7	15.8
Total liabilities	77.5	70.0
Deferred Inflows of Resources	9.6	4.9
Net Position		
Net investment in capital assets	13.7	9.2
Unrestricted	(42.2)	(36.2)
Total net position	**$ (28.5)**	**$ (27.0)**

The above analysis focuses on net position. The change in net position of the Agency's governmental activities is discussed below. The Agency's net position was $(28.5) million at June 30, 2019. Net investment in capital assets totaling $13.7 million is the original cost less depreciation of the Agency's capital assets. The remaining amount of net position ($(42.2) million) was unrestricted.

The $(42.2) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations and the impact from adoption of GASB Statement Nos. 68 and 75 (recording the School District's share of the net pension and OPEB liabilities from the state-managed retirement system). Unrestricted net position, when available, would enable the Agency to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund and the change in the net pension and OPEB liabilities will have significant impacts on the change in unrestricted net position from year to year. The negative unrestricted net position balance is attributed to the $56.2 million net pension and OPEB liabilities and pension and OPEB related activity arising from the underfunded MPSERS obligations.

The results of this year's operations for the Agency as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2019 and 2018:

	Governmental Activities	
	2019	2018
	(in millions)	
Revenue		
Program revenue:		
Charges for services	$ 2.8	$ 2.7
Operating grants and contributions	27.8	26.3
General revenue:		
Property taxes	19.1	18.8
State foundation allowance	1.5	1.5
Other	1.5	1.5
Total revenue	52.7	50.8
Functions/Program Expenses		
Administration Center	34.3	30.0
Blossomland Learning Center	8.7	8.2
Lighthouse Education Center	6.7	6.0
Juvenile Center	0.7	0.7
Transportation Center	3.3	3.2
Depreciation expense (unallocated)	0.5	0.6
Total functions/program expenses	54.2	48.7
Change in Net Position	(1.5)	2.1
Net Position - Beginning of year	(27.0)	(29.1)
Net Position - End of year	**$ (28.5)**	**$ (27.0)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $54.2 million. Certain activities were partially funded from those who benefited from the programs ($2.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions ($27.8 million). We paid for the remaining "public benefit" portion of our governmental activities with $19.1 million in taxes, $1.5 million in state foundation allowance, and our other revenue (i.e., interest and general entitlements).

The Agency experienced a decrease in net position of $1.5 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the Agency's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the Agency and balance those needs with state-prescribed available unrestricted resources.

The Agency's Funds

As we noted earlier, the Agency uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Agency is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Agency's overall financial health.

As the Agency completed this year, the governmental funds reported a combined fund balance of $11.4 million, which is a decrease of $3.7 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance increased from $4.1 million to $4.5 million.

Fund balance of our Special Education Fund decreased from $11.0 million last year to $6.9 million. This decrease is primarily due to ongoing building renovation projects.

General Fund Budgetary Highlights

Over the course of the year, the Agency revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2019. A schedule showing the Agency's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were minor revisions made to the 2018-2019 General Fund original budget. Budgeted revenue was increased $0.7 million due to carried-over grant revenue, and expenditures increased to match that increase in revenue.

The Agency incurred expenditures in the General Fund that were in excess of the amounts budgeted, as described in Note 3.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2019, the Agency had $13.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately $4.5 million from last year.

	Governmental Activities	
	2019	2018
Land	$ 237,753	$ 237,753
Construction in progress	5,796,208	814,609
Buildings and building improvements	16,972,045	16,883,262
Furniture and equipment	1,992,026	1,992,026
Total capital assets	24,998,032	19,927,650
Less accumulated depreciation	11,272,685	10,736,283
Total capital assets - Net of accumulated depreciation	**$ 13,725,347**	**$ 9,191,367**

This year's additions of $5,070,382 were primarily attributable to the ongoing renovation project at Blossomland Learning Center. Continued work at Blossomland in the 2019-2020 fiscal year will result in an additional $3.0 million of capital spending. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Agency had no bonds outstanding, same as the previous year.

Other obligations include accrued vacation pay and self-insurance estimated liability. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Agency's 2018-2019 fiscal year budget. One of the most important factors affecting the budget is state aid and property tax revenue provided to the Agency. Approximately 51 percent of total General Fund revenue is from state sources, and approximately 11 percent of total General Fund revenue is from local property taxes. Under state law, the Agency cannot assess additional property tax revenue for general operations.

Similarly, approximately 26 percent of total Special Education Fund revenue is from state sources, and approximately 44 percent of total Special Education Fund revenue is from local property taxes. Subject to voter approval, the Agency could assess additional property tax revenue for special education operations; however, there is insufficient support from our local school districts to pursue this.

Since the Agency's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to public school districts, intermediate school districts, and regional education service agencies and how the State determines its funding allocation to each. For the 2019-2020 fiscal year, the target foundation allowance (formerly known as the basic foundation allowance) increases by $120, from $8,409 to $8,529. Additionally, using the “2X formula,” the minimum foundation allowance increases by $240 per pupil to $8,111. Based on these changes, the Agency will receive a $240 increase in its foundation allowance, representing an increase of 3.0 percent. When signing the bill, the governor exercised several significant line item vetoes. As a result, it is likely that there will be additional changes to funding for public education for 2019-2020. What will ultimately occur is unclear and will require careful monitoring by the Agency. Although the foundation allowance for school districts has been finalized, the governor has made multiple line item vetoes to the School Aid bill that impact various funding categoricals. The impact on the Agency will not be determined until the governor signs the final bill.

Statement of Net Position

June 30, 2019

	Governmental Activities
Assets	
Cash and investments (Note 4)	$ 13,342,766
Receivables - Net:	
Accounts receivable	940,938
Due from other governments	7,484,966
Inventories	12,661
Capital assets - Net (Note 6)	13,725,347
Total assets	35,506,678
Deferred Outflows of Resources	
Deferred pension costs (Note 10)	20,118,460
Deferred OPEB costs (Note 10)	3,022,524
Total deferred outflows of resources	23,140,984
Liabilities	
Accounts payable	2,426,534
Accrued payroll and other liabilities	4,164,098
Unearned revenue (Note 5)	685,087
Noncurrent liabilities:	
Due within one year (Note 8)	400,000
Due in more than one year (Note 8)	179,985
Net pension liability (Note 10)	54,978,743
Net OPEB liability (Note 10)	14,728,126
Total liabilities	77,562,573
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the report date (Note 10)	2,050,897
Deferred pension costs (Note 10)	4,211,333
Deferred OPEB costs (Note 10)	3,312,620
Total deferred inflows of resources	9,574,850
Net Position	
Net investment in capital assets	13,725,347
Unrestricted	(42,215,108)
Total net position	**$ (28,489,761)**

Statement of Activities

Year Ended June 30, 2019

		Program Revenue		Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Administration Center	$ 34,275,554	$ 2,567,465	$ 14,118,577	$ (17,589,512)
Blossomland Learning Center	8,720,076	20,688	7,509,074	(1,190,314)
Lighthouse Education Center	6,710,663	5,425	5,062,775	(1,642,463)
Juvenile Center	688,849	-	1,100,325	411,476
Transportation Center	3,311,911	218,323	-	(3,093,588)
Depreciation expense (unallocated) (Note 6)	536,402	-	-	(536,402)
Total governmental activities	**54,243,455**	**2,811,901**	**27,790,751**	(23,640,803)
General revenue:				
Taxes - Property taxes levied for general purposes				19,068,145
State aid not restricted to specific purposes				1,540,909
Interest and investment earnings				188,664
Other				1,355,432
Total general revenue				22,153,150
Change in Net Position				(1,487,653)
Net Position - Beginning of year				(27,002,108)
Net Position - End of year				**$ (28,489,761)**

Governmental Funds Balance Sheet

June 30, 2019

	General Fund	Special Education Fund	Nonmajor Fund - School Service Fund	Total Governmental Funds
Assets				
Cash and investments (Note 4)	$ 4,362,030	$ 7,185,757	$ -	$ 11,547,787
Receivables:				
Accounts receivable	541,593	385,568	13,777	940,938
Due from other governments	1,829,622	5,655,344	-	7,484,966
Due from other funds (Note 7)	2,815	-	-	2,815
Inventories	4,722	6,060	1,879	12,661
Total assets	**$ 6,740,782**	**$ 13,232,729**	**$ 15,656**	**$ 19,989,167**
Liabilities				
Accounts payable	$ 1,321,978	$ 1,098,799	$ 5,757	$ 2,426,534
Due to local school districts	-	730,836	-	730,836
Due to other funds (Note 7)	62,055	1,648,454	2,815	1,713,324
Accrued payroll and other liabilities	174,413	2,598,804	-	2,773,217
Unearned revenue (Note 5)	685,087	-	-	685,087
Total liabilities	2,243,533	6,076,893	8,572	8,328,998
Deferred Inflows of Resources -				
Unavailable revenue (Note 5)	-	225,680	-	225,680
Total liabilities and deferred inflows of resources	2,243,533	6,302,573	8,572	8,554,678
Fund Balances				
Nonspendable - Inventories	4,722	6,060	1,879	12,661
Restricted:				
Special education (Note 11)	-	6,924,096	-	6,924,096
School service	-	-	5,205	5,205
Assigned:				
Health and medical	250,000	-	-	250,000
Administrative center improvements	50,000	-	-	50,000
Unassigned	4,192,527	-	-	4,192,527
Total fund balances	4,497,249	6,930,156	7,084	11,434,489
Total liabilities, deferred inflows of resources, and fund balances	**$ 6,740,782**	**$ 13,232,729**	**$ 15,656**	**$ 19,989,167**

See notes to financial statements.

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position

		June 30, 2019
Fund Balances Reported in Governmental Funds	$	11,434,489
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 are not reported in the funds:		
Cost of capital assets		24,998,032
Accumulated depreciation		(11,272,685)
Net capital assets used in governmental activities		13,725,347
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds		225,680
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:		
Employee compensated absences		(179,985)
Net pension liability and related deferred inflows and outflows		(39,071,616)
Net OPEB liability and related deferred inflows and outflows		(15,018,222)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds		(2,050,897)
Internal service funds are included as part of governmental activities		2,445,443
Net Position of Governmental Activities	**$**	**(28,489,761)**

See notes to financial statements.

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

	General Fund	Special Education Fund	Nonmajor Fund - School Service	Total Governmental Funds
Revenue				
Local sources	$ 3,486,205	$ 21,588,899	$ 74,999	$ 25,150,103
State sources	6,456,280	10,504,197	2,069	16,962,546
Federal sources	1,365,589	7,445,315	142,973	8,953,877
Governmental - Intergovernmental	1,470,182	218,323	-	1,688,505
Total revenue	12,778,256	39,756,734	220,041	52,755,031
Expenditures - Current				
Administrative Center	12,703,862	20,301,727	-	33,005,589
Blossomland Learning Center	-	8,040,339	175,429	8,215,768
Lighthouse Education Center	-	6,253,021	106,623	6,359,644
Juvenile Center	-	652,817	-	652,817
Transportation Center	-	3,138,672	-	3,138,672
Capital outlay	29,737	5,057,514	31,544	5,118,795
Total expenditures	12,733,599	43,444,090	313,596	56,491,285
Excess of Revenue Over (Under) Expenditures	44,657	(3,687,356)	(93,555)	(3,736,254)
Other Financial Sources (Uses)				
Transfers in (Note 7)	375,000	-	-	375,000
Transfers out (Note 7)	-	(375,000)	-	(375,000)
Total other financing sources (uses)	375,000	(375,000)	-	-
Net Change in Fund Balances	419,657	(4,062,356)	(93,555)	(3,736,254)
Fund Balances - Beginning of year	4,077,592	10,992,512	100,639	15,170,743
Fund Balances - End of year	**$ 4,497,249**	**$ 6,930,156**	**$ 7,084**	**$ 11,434,489**

Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2019

Net Change in Funds Balance Reported in Governmental Funds	$ (3,736,254)
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, these costs are allocated over their estimated useful lives as depreciation	
Capitalized capital outlay	5,070,382
Depreciation expense	(536,402)
Total	4,533,980
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	771
Revenue in support of pension contributions made subsequent to the measurement date	(171,378)
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(2,637,149)
Internal service funds are included as part of governmental activities	522,377
Change in Net Position of Governmental Activities	**$ (1,487,653)**

Proprietary Fund
Statement of Net Position

June 30, 2019

	Internal Service Fund
Assets	
Current assets:	
Cash and investments (Note 4)	$ 1,794,979
Due from other funds (Note 7)	1,710,509
Total assets	3,505,488
Liabilities	
Current liabilities:	
Accrued liabilities	660,045
Self-insurance estimated liability (Note 9)	400,000
Total liabilities	1,060,045
Net Position - Unrestricted	**$ 2,445,443**

See notes to financial statements.

Proprietary Fund
Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2019

	Internal Service Fund
Operating Revenue - Charges to other funds	$ 6,020,215
Operating Expenses	
Health benefits - Insurance	572,229
Health benefits - Administration	250,555
Health benefits - Claims	4,690,104
Total operating expenses	5,512,888
Operating Income	507,327
Nonoperating Revenue - Interest and investment earnings	15,050
Change in Net Position	522,377
Net Position - Beginning of year	1,923,066
Net Position - End of year	**$ 2,445,443**

See notes to financial statements.

Proprietary Fund
Statement of Cash Flows

Year Ended June 30, 2019

	Internal Service Fund
Cash Flows from Operating Activities	
Receipts from other funds	$ 7,292,817
Payments to vendors	(5,512,888)
Net cash and investments from operating activities	1,779,929
Cash Flows Provided by Investing Activities - Interest income	15,050
Net Increase in Cash and Investments	1,794,979
Cash and Investments - Beginning of year	-
Cash and Investments - End of year	**$ 1,794,979**
Reconciliation of Operating Income to Net Cash and Investments from Operating Activities	
Operating income	$ 507,327
Adjustments to reconcile operating income to net cash and investments from operating activities - Changes in assets and liabilities - Due from other funds	1,272,602
Net cash and investments from operating activities	**$ 1,779,929**

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities

June 30, 2019

	Agency Fund - Student Activities Fund
Assets - Cash and investments (Note 4)	$ 36,965
Liabilities - Due to student groups	$ 36,965

See notes to financial statements.

Note 1 - Nature of Business

Berrien Regional Education Service Agency (the "Agency") is an educational service agency in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

Berrien Regional Education Service Agency follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the Agency:

Reporting Entity

The Agency is governed by an elected five-member Board of Education. In accordance with governmental accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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 provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

As a general rule, the effect of interfund activity has been removed from these statements.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 2 - Significant Accounting Policies (Continued)

Fund Accounting

The Agency accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into the following fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Agency reports the following funds as "major" governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Special Education Fund, a special revenue fund, is used to record all transactions associated with special education programs administered by the Agency, as well as payments to local districts within the Agency to fund special education activities. These programs are funded primarily by taxes, state aid categoricals, Medicaid funding, and federal grants.

Additionally, the Agency reports the following nonmajor governmental fund types:

- The School Service Fund is a special revenue fund that is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Agency maintains full control of this fund. The School Service Fund maintained by the Agency is for food services. Food services are provided to the special education programs. Any operating deficit generated by this activity is the responsibility of the General Fund.

Proprietary Funds

The Agency's Internal Service Fund is used to account for the self-insured benefits. Costs are charged to the other funds on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. The Agency presently maintains agency funds to record the transactions of student groups for school and school-related purposes. The funds are segregated and held for the students.

Interfund Activity

During the course of operations, the Agency has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Note 2 - Significant Accounting Policies (Continued)

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Agency considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Investments

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value except for the investment in MILAF MAX Class, which is valued at amortized cost. Pooled investment income from the General Fund and Special Education Fund is generally allocated to each fund using a weighted-average of balance for the principal.

Inventories

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the School Service Fund is recorded as inventory and deferred revenue until used.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable column in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Agency does not have infrastructure-type assets.

Buildings, building additions, furniture, and other equipment are depreciated using the straight-line method over the following useful lives:

	Depreciable Life
Building and building additions	15 to 50 years
Furniture and other equipment	5 to 10 years

Note 2 - Significant Accounting Policies (Continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Agency reports deferred outflows related to deferred pension and OPEB costs.

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

The Agency reports deferred inflows related to unavailable revenue, revenue in support of pension contributions made subsequent to the measurement date, and deferred pension and OPEB costs.

Net Position

Net position of the Agency is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Agency will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The Agency will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Note 2 - Significant Accounting Policies (Continued)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes, but do not meet the criteria to be classified as committed. The Agency has by resolution authorized the superintendent and assistant superintendent to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Properties are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year. Tax collections are forwarded to the Agency as collected by the assessing municipalities through March 1, at which time they are considered delinquent and added to county tax rolls. Any delinquent taxes collected by the county are remitted to the Agency by June 30. The Agency considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Grants and Contributions

The Agency receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from the MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation pay. A liability for this amount is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Agency has evaluated the impact this standard will have on the financial statements when adopted. As of July 1, 2019, the Agency will report the activities and related balances currently reported as fiduciary in a newly created special revenue fund.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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 Agency is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Agency's financial statements for the year ending June 30, 2021.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The budget document presents information by program. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the program level. State law requires the Agency to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Agency incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Capital outlay	$ 26,550	$ 29,737
Special Education Fund - Administration Center	18,003,810	20,301,727
Special Education Fund - Capital outlay	4,591,875	5,057,514
Special Education Fund - Lighthouse	5,874,065	6,253,021
Special Education Fund - Transportation	2,681,200	3,138,672

Note 4 - Deposits and Investments

State statutes and the Agency's investment policy authorize the Agency to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Agency’s deposits are in accordance with statutory authority.

The Agency has designated two financial institutions for the deposit of its funds.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost except for a 14-day redemption limitation on MILAF MAX Class funds.

The Agency's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the Agency's deposits for custodial credit risk. At year end, the Agency had approximately $9,360,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Agency 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 Agency 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.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's investment policy states that risk will be minimized by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At June 30, 2019, the Agency does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Agency's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The Agency's policy minimized 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 Agency's cash requirements.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Agency's investment policy does not further limit its investment choices.

Note 4 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Michigan Liquid Asset Fund - MAX Class	$ 3,984,137	AAAm	S&P

Concentration of Credit Risk

The Agency places no limit on the amount the Agency may invest in any one issuer. The Agency's policy minimized 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 Agency's investment policy prohibit investments in foreign currency.

Note 5 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2019, the various components of unearned and unavailable revenue were as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Transportation services provided to the local districts	$ 225,680	$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	685,087
Total	$ 225,680	$ 685,087

Note 6 - Capital Assets

Capital asset activity of the Agency's governmental activities was as follows:

Governmental Activities

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 237,753	$ -	$ -	$ 237,753
Construction in progress	814,609	4,981,599	-	5,796,208
Subtotal	1,052,362	4,981,599	-	6,033,961
Capital assets being depreciated:				
Facility - Administration Center	4,902,871	-	-	4,902,871
Facility - Blossomland Learning Center	5,895,461	88,783	-	5,984,244
Facility - Lighthouse Education Center	4,110,603	-	-	4,110,603
Facility - Building Trades Center	402,422	-	-	402,422
Facility - Transportation Center	1,571,905	-	-	1,571,905
Furniture and equipment	1,992,026	-	-	1,992,026
Subtotal	18,875,288	88,783	-	18,964,071
Accumulated depreciation:				
Facility - Administration Center	3,099,711	151,470	-	3,251,181
Facility - Blossomland Learning Center	3,747,554	210,510	-	3,958,064
Facility - Lighthouse Education Center	1,279,875	102,853	-	1,382,728
Facility - Building Trades Center	120,727	8,048	-	128,775
Facility - Transportation Center	575,015	37,433	-	612,448
Furniture and equipment	1,913,401	26,088	-	1,939,489
Subtotal	10,736,283	536,402	-	11,272,685
Net capital assets being depreciated	8,139,005	(447,619)	-	7,691,386
Net governmental activities capital assets	$ 9,191,367	$ 4,533,980	$ -	$ 13,725,347

Depreciation expense was not charged to activities, as the Agency considers its assets to benefit multiple activities, and allocation is not practical.

Construction Commitments

The Agency has active construction projects at year end. At year end, the Agency's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Blossomland Learning Center	$ 4,671,981	$ 3,526,431

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

	Fund Due From			
Fund Due To	General Fund	Special Education	Nonmajor Fund - School Service Fund	Total
Internal Service Fund	$ 62,055	$ 1,648,454	$ -	$ 1,710,509
General Fund	-	-	2,815	2,815
Total	$ 62,055	$ 1,648,454	$ 2,815	$ 1,713,324

The interfund receivables from the General Fund and the Special Education Fund relate to services provided by the Internal Service Fund. The interfund receivable from the School Service Fund represents routine and temporary cash flow assistance from the General Fund.

Interfund transfers reported in the fund financial statements are composed of the following:

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
Special Education Fund	General Fund	$ 375,000

The transfer to the General Fund was a payment for services provided.

Note 8 - Long-term Liabilities

Long-term liability activity for the year ended June 30, 2019 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	$ 187,748	$ -	$ (7,763)	$ 179,985	$ -
Self-insurance estimated liability	400,000	4,988,614	(4,988,614)	400,000	400,000
Total governmental activities	$ 587,748	$ 4,988,614	$ (4,996,377)	$ 579,985	$ 400,000

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund. The self-insurance estimated liability will generally be liquidated through the Agency's internal service fund.

Note 9 - Risk Management

The Agency 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, dental, and optical provided to employees. The Agency has purchased commercial insurance for general liability, property/casualty, and errors and omissions claims. The Agency participates in the SET-SEG (risk pool) for claims relating to workers' compensation. The Agency is partially insured for medical claims. The Agency is uninsured for medical claims up to $100,000 individually and $5,573,057 aggregately. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the Agency participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Risk Management (Continued)

The Agency estimates the liability for claims that have been incurred through the end of the fiscal year, including claims that have been reported and those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2019	2018
Estimated liability - Beginning of year	$ 400,000	$ 400,000
Estimated claims incurred, including changes in estimates	4,988,614	4,284,765
Claim payments	(4,988,614)	(4,284,765)
Estimated liability - End of year	$ 400,000	$ 400,000

Note 10 - Michigan Public School Employees' Retirement System

Plan Description

The Agency participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Agency. Certain agency employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at http://www.michigan.gov/orsschools, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and 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 for the defined benefit pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member’s date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member’s date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Contributions

Public Act 300 of 1980, as amended, required the Agency to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree health care and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stopped paying the 3 percent contribution to the retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

The Agency's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The Agency's required and actual pension contributions to the plan for the year ended June 30, 2019 were $5,099,712, which include the Agency's contributions required for those members with a defined contribution benefit. The Agency's required and actual pension contributions include an allocation of $2,050,897 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2019.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The Agency's required and actual OPEB contributions to the plan for the year ended June 30, 2019 were $1,381,601, which include the Agency's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2019, the Agency reported a liability of $54,978,743 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The Agency's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the Agency's proportion was 0.183 and 0.0179 percent, respectively, representing a change of 2.20 percent.

Net OPEB Liability

At June 30, 2019, the Agency reported a liability of $14,728,126 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The Agency’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the Agency’s proportion was 0.185 and 0.179 percent, respectively, representing a change of 3.63 percent.

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

For 2019, the Agency recognized pension expense of $8,387,809, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2019, the Agency 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	$ 255,112	$ (399,521)
Changes in assumptions	12,733,032	-
Net difference between projected and actual earnings on pension plan investments	-	(3,759,148)
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	2,854,336	(52,664)
The Agency's contributions to the plan subsequent to the measurement date	4,275,980	-
Total	$ 20,118,460	$ (4,211,333)

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The $2,050,897 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2020	$ 4,950,260
2021	3,540,836
2022	2,289,584
2023	850,467
Total	$ 11,631,147

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

For the year ended June 30, 2019, the Agency recognized OPEB expense of $824,253.

At June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (2,741,283)
Changes in assumptions	1,559,716	-
Net difference between projected and actual earnings on OPEB plan investments	-	(566,037)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	489,505	(5,300)
Employer contributions to the plan subsequent to the measurement date	973,303	-
Total	$ 3,022,524	$ (3,312,620)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2020	$ (326,275)
2021	(326,275)
2022	(326,275)
2023	(210,949)
2024	(73,625)
Total	$ (1,263,399)

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2018 are based on the results of an actuarial valuation as of September 30, 2017 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 7.05%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.15%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75% for 2019 and 3.50% for 2018
Healthcare cost trend rate - OPEB	7.50%	Year 1 graded to 3.0% year 12
Mortality basis		RP2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 7.05 percent as of September 30, 2018 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.15 percent as of September 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long-term expected rate of return on pension plan and 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 plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.70 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	3.90
Absolute return pools	15.50	5.20
Short-term investment pools	2.00	-
Total	100.00 %	

Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

The following presents the net pension liability of the Agency, calculated using the discount rate depending on the plan option. The following also reflects what the Agency's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.00 - 6.05%)	Current Discount Rate (6.00 to 7.05%)	1 Percent Increase (7.00 - 8.05%)
Net pension liability of the Agency	$ 72,182,843	$ 54,978,743	$ 40,684,932

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

The following presents the net OPEB liability of the Agency, calculated using the current discount rate. It also reflects what the Agency's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.15%)	Current Discount Rate (7.15%)	1 Percent Increase (8.15%)
Net OPEB liability of the Agency	$ 17,680,816	$ 14,728,126	$ 12,244,553

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the Agency	$ 12,113,722	$ 14,728,126	$ 17,727,382

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2019, the Agency reported a payable of $695,992 and $141,259 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

Note 11 - Restricted Fund Balance

The Special Education Fund fund balance is restricted. Identified uses of the fund balance at June 30, 2019 include the following:

Administration Center improvements	$ 50,000
Blossomland improvements Phase I (previously reserved)	414,000
Blossomland improvements Phase II ($1,250,000 previously reserved)	2,750,000
Health and medical	750,000
Special education - General	2,960,096
Total	$ 6,924,096

Note 12 - Tax Abatements

The Agency receives reduced property tax revenue as a result of industrial facilities tax exemptions (PA 198 of 1974) and brownfield redevelopment agreements granted by cities, villages, and townships within the boundaries of the Agency. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal years ended June 30, 2019, the Agency's property tax revenue was reduced by $187,000 under these programs.

The Agency is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the School Aid formula. The Agency received approximately $173,000 in reimbursements from the State of Michigan. There are no abatements made by the Agency.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	$ 3,528,381	$ 3,595,501	$ 3,486,205	$ (109,296)
State sources	5,740,240	5,674,629	6,456,280	781,651
Federal sources	1,355,160	1,696,008	1,365,589	(330,419)
Governmental - Intergovernmental	1,365,600	1,764,996	1,470,182	(294,814)
Total revenue	11,989,381	12,731,134	12,778,256	47,122
Expenditures				
Administration Center	12,046,628	12,653,831	12,703,862	50,031
Capital outlay	26,550	26,550	29,737	3,187
Total expenditures	12,073,178	12,680,381	12,733,599	53,218
Excess of Revenue (Under) Over Expenditures	(83,797)	50,753	44,657	(6,096)
Other Financing Sources - Transfers in	375,000	375,000	375,000	-
Net Change in Fund Balance	291,203	425,753	419,657	(6,096)
Fund Balance - Beginning of year	4,077,592	4,077,592	4,077,592	-
Fund Balance - End of year	**$ 4,368,795**	**$ 4,503,345**	**$ 4,497,249**	**$ (6,096)**

See notes to required supplemental information.

Berrien Regional Education Service Agency

Required Supplemental Information
Budgetary Comparison Schedule - Special Revenue Fund
Special Education

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	$ 20,512,236	$ 20,923,338	$ 21,588,899	$ 665,561
State sources	9,668,918	10,371,725	10,504,197	132,472
Federal sources	7,182,300	6,111,846	7,445,315	1,333,469
Interdistrict sources	250,000	250,000	218,323	(31,677)
Total revenue	37,613,454	37,656,909	39,756,734	2,099,825
Expenditures				
Administration Center	18,731,397	18,003,810	20,301,727	2,297,917
Blossomland Learning Center	8,311,104	8,315,946	8,040,339	(275,607)
Lighthouse Education Center	5,859,734	5,874,065	6,253,021	378,956
Juvenile Center	731,557	692,364	652,817	(39,547)
Transportation Center	3,227,200	2,681,200	3,138,672	457,472
Capital outlay	4,591,875	4,591,875	5,057,514	465,639
Total expenditures	41,452,867	40,159,260	43,444,090	3,284,830
Excess of Expenditures Over Revenue	(3,839,413)	(2,502,351)	(3,687,356)	(1,185,005)
Other Financing Uses - Transfers out	(375,000)	(375,000)	(375,000)	-
Net Change in Fund Balance	(4,214,413)	(2,877,351)	(4,062,356)	(1,185,005)
Fund Balance - Beginning of year	10,992,512	10,992,512	10,992,512	-
Fund Balance - End of year	**$ 6,778,099**	**$ 8,115,161**	**$ 6,930,156**	**$ (1,185,005)**

See notes to required supplemental information.

Required Supplemental Information
Schedule of the Agency's Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement System

Last Five Plan Years

Plan Years Ended September 30

	2018	2017	2016	2015	2014
Agency's proportion of the net pension liability	0.18289 %	0.17896 %	0.16990 %	0.16345 %	0.15322 %
Agency's proportionate share of the net pension liability	$ 54,978,743	$ 46,375,410	$ 42,389,501	$ 39,921,795	$ 33,748,120
Agency's covered employee payroll	$ 15,811,809	$ 15,281,976	$ 15,187,371	$ 14,117,197	$ 12,961,515
Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll	347.71 %	303.46 %	279.11 %	282.79 %	260.37 %
Plan fiduciary net position as a percentage of total pension liability	62.12 %	63.96 %	63.01 %	62.92 %	66.20 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement System

Last Five Fiscal Years

Years Ended June 30

	2019	2018	2017	2016	2015
Statutorily required contribution	$ 5,003,553	$ 4,691,250	$ 4,228,693	$ 3,879,929	$ 2,990,222
Contributions in relation to the statutorily required contribution	5,003,553	4,691,250	4,228,693	3,879,929	2,990,222
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Agency's Covered Employee Payroll	$ 16,387,236	$ 15,578,389	$ 15,227,239	$ 14,716,984	$ 12,961,515
Contributions as a Percentage of Covered Employee Payroll	30.53 %	30.11 %	27.77 %	26.36 %	23.07 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of the Agency's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees' Retirement System

Last Two Plan Years

Plan Years Ended September 30

	2018	2017
Agency's proportion of the net OPEB liability	0.18528 %	0.17879 %
Agency's proportionate share of the net OPEB liability	$ 14,728,126	$ 15,832,879
Agency's covered employee payroll	$ 15,811,809	$ 15,281,976
Agency's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	93.15 %	103.60 %
Plan fiduciary net position as a percentage of total OPEB liability	43.10 %	36.53 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

Last Two Fiscal Years

Years Ended June 30

	2019	2018
Statutorily required contribution	$ 1,287,221	$ 1,125,184
Contributions in relation to the statutorily required contribution	1,287,221	1,125,184
Contribution Deficiency	**$ -**	**$ -**
Agency's Covered Employee Payroll	$ 16,387,326	$ 15,578,389
Contributions as a Percentage of Covered Employee Payroll	7.86 %	7.22 %

See notes to required supplemental information.

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percent.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percent.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percent.