Financial Statements
June 30, 2018

Sourcewell
Staples, Minnesota

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Name	Position	Term Expires
Elected		
Mike Wilson - Sub-Region IV	Chairperson	12/31/2021
Barbara Neprud - Sub-Region II	Vice-Chairperson	12/31/2019
Scott Veronen - Sub-Region I	Clerk	12/31/2018
Sharon Thiel - Sub-Region 1	Treasurer	12/31/2021
Mark Gerbi - Sub-Region III	Director	12/31/2019
Ryan Thomas - Sub-Region III	Director	12/31/2020
Sara Nagel - Sub-Region II	Director	12/31/2018
Greg Zylka - Sub-Region IV	Director	12/31/2020
Management		
Dr. Chad Coauette	Executive Director	
Mike Carlson	Director of Finance	
Michael Brandt	Controller	

Independent Auditor's Report

To the Board of Directors of
Sourcewell
Staples, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Sourcewell, Staples, Minnesota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Sourcewell'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Sourcewell, as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Implementation of GASB No. 75
As discussed in Notes 1 and 10 to the financial statements, Sourcewell has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which has resulted in a restatement of the net position as of July 1, 2017. Our opinions are not modified with respect to this matter.

Prior Period Restatement
As discussed in Note 10 to the financial statements, Sourcewell determined that administrative fee revenue should have been recognized in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, resulting in an understatement of previously reported net position. Accordingly, amounts reported for revenue have been restated and an adjustment has been made to net position as of July 1, 2017, to correct the error. Our opinions are not modified with respect to this matter.

Other Matters

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise Sourcewell's basic financial statements. The official directory and uniform accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The uniform accounting and reporting standards compliance table 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The official directory has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2018, on our consideration of Sourcewell'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 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 Sourcewell's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sourcewell's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
November 13, 2018

This section of Sourcewell's annual financial report presents our discussion and analysis of Sourcewell's financial performance during the fiscal year that ended on June 30, 2018.

Financial Highlights

Key financial highlights for the 2017-2018 fiscal year:

- Net position increased by $7,661,340 over the prior year. This includes a $7,518,217 net position increase to the governmental activities after transfers and a $143,123 net position increase to the business-type activities (Risk Management and Cooperative Purchasing) after transfers.
- The Governmental Funds fund balance increased by $7,456,801.
- The total Governmental Funds fund balance as of June 30, 2018 is $12,841,604.
- The Business-Type Funds net position increase (decrease) is summarized below:

Risk Management	$ (1,135,309)
Cooperative Purchasing	1,278,432
Total Business-Type Funds	$ 143,123

The total Business-Type Funds net position as of June 30, 2018 are $48,305,380.

Overview of the Financial Statements

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of Sourcewell:

- The first two statements are Government-wide financial statements that provide both short-term and long-term information about Sourcewell's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of Sourcewell, reporting Sourcewell's operations in more detail than Government-wide statements.
- The governmental funds statements tell how basic services such as General Administration, Special Education and District Support Services were financed in the short term as well as what remains for future spending. They also include the Capital Projects activity related to the construction of the new administration building.
- The proprietary funds statements tell how business-like services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

1. Management's Discussion and Analysis

2. Basic Financial Statements
    - Government-Wide Financial Statements
    - Fund Financial Statements

3. Additional Reports
    - Schedule of Expenditures of Federal Awards

Footnote 1 summarizes the major features of Sourcewell's financial statements, including the portion of Sourcewell's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Government-Wide Statements

Government-wide statements report information about Sourcewell as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of Sourcewell'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 Government-wide statements report Sourcewell's net position and how they have changed. Net position – the difference between Sourcewell's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure Sourcewell's financial health or position.

- Over time, increases or decreases in Sourcewell's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of Sourcewell you need to consider additional non-financial factors such as changes in Sourcewell's membership base, the number of contracts awarded as well as other programs and services offered.

In the Government-wide financial statements Sourcewell's activities are shown in two categories:

- Governmental activities – All of Sourcewell's basic services are included here, such as administration, educational services, and student academic programs. Local support, state grants, and federal grants finance most of these activities.

- Business-type activities – Sourcewell's business-like activities are included here which consists of a self-insured health insurance pool as well as other risk management programs and cooperative purchasing activities. Interest income, drug rebates, and fees for service finance these activities.

Fund Financial Statements

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

- Sourcewell establishes several funds to control and manage money for particular purposes (e.g., insurance services) or to show that it is properly using certain revenues (e.g., federal and state grants).

Sourcewell has two kinds of funds:

- Governmental Funds – All of Sourcewell's basic services are included in governmental funds, which generally focus on:

    - how cash and other financial assets that can readily be converted to cash flow in and out and

    - the balances left at year-end that are available for spending.

  Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance Sourcewell's programs. Because this information does not encompass the additional long-term focus of Government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- Business-Type Funds – Sourcewell's business-like activities include a self-insured health insurance pool as well as other risk management programs and cooperative purchasing activities. Sourcewell provides these services on a fee for service basis. These funds are accounted for in a separate section in the audit report to provide accounting methods similar to those used by private sector companies. Consequently, the business-type funds statements provide a short-term view that helps to determine whether their programs are beneficial to the members and the agency.

Financial Analysis of Sourcewell as a Whole

Net position. Sourcewell's combined net position was a positive $68,886,511 on June 30, 2018.

Statement of Net Position
June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 (As Restated)	2018	2017 (As Restated)	2018	2017 (As Restated)
Assets						
Current assets	$ 14,388,237	$ 6,296,110	$ 54,070,625	$ 53,537,411	$ 68,458,862	$ 59,833,521
Capital assets	12,536,462	11,685,772	-	-	12,536,462	11,685,772
Total assets	26,924,699	17,981,882	54,070,625	53,537,411	80,995,324	71,519,293
Deferred Outflows of Resources	4,008,108	3,901,780	967,658	1,056,635	4,975,766	4,958,415
Liabilities						
Current liabilities	1,662,045	991,397	4,153,128	3,868,556	5,815,173	4,859,953
Long-term liabilities	7,492,598	7,325,228	2,217,755	2,383,079	9,710,353	9,708,307
Total liabilities	9,154,643	8,316,625	6,370,883	6,251,635	15,525,526	14,568,260
Deferred Inflows of Resources	1,197,033	382,543	362,020	180,154	1,559,053	562,697
Net Position						
Investment in capital assets	12,536,462	11,685,772	-	-	12,536,462	11,685,772
Committed	5,400,000	-	-	-	5,400,000	-
Restricted	-	-	157,928	157,928	157,928	157,928
Unrestricted	2,644,669	1,498,722	48,147,452	48,004,329	50,792,121	49,503,051
Total net position	$ 20,581,131	$ 13,184,494	$ 48,305,380	$ 48,162,257	$ 68,886,511	$ 61,346,751

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to the prior year for some areas of the financial statements.

Statement of Activities
Years Ended June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 (As Restated)	2018	2017 (As Restated)	2018	2017 (As Restated)
Revenues						
Program revenues						
Charges for service	$ 1,531,342	$ 1,612,246	$ 70,208,003	$ 64,796,136	$ 71,739,345	$ 66,408,382
Operating grants and contributions	538,035	647,636	-	-	538,035	647,636
General revenues						
Unrestricted investment earnings	(18,767)	(647)	(215,717)	(184,639)	(234,484)	(185,286)
State aid	7,450	61,298	-	-	7,450	61,298
Miscellaneous	342,090	567,164	-	-	342,090	567,164
Total revenues	2,400,150	2,887,697	69,992,286	64,611,497	72,392,436	67,499,194
Expenses						
Administration	12,190	-	-	-	12,190	-
District support services	5,576,221	5,204,666	-	-	5,576,221	5,204,666
Instructional Support Services	2,817,578	1,921,163	-	-	2,817,578	1,921,163
Regular instruction	78,013	107,806	-	-	78,013	107,806
Special education instruction	734,850	868,174	-	-	734,850	868,174
Pupil support services	844,116	778,300	-	-	844,116	778,300
Sites and buildings	593,665	827,804	-	-	593,665	827,804
Fiscal and other fixed cost programs	120,231	38,554	-	-	120,231	38,554
Risk management	-	-	33,736,474	27,391,635	33,736,474	27,391,635
Cooperative purchasing	-	-	20,217,758	14,611,454	20,217,758	14,611,454
Total expenses	10,776,864	9,746,467	53,954,232	42,003,089	64,731,096	51,749,556
Transfers In (Out)	15,894,931	8,286,676	(15,894,931)	(8,286,676)	-	-
Change in Net Position	7,518,217	1,427,906	143,123	14,321,732	7,661,340	15,749,638
Net Position - Beginning, as restated on July 1, 2017	13,062,914	11,756,588	48,162,257	33,840,525	61,225,171	45,597,113
Net Position - Ending	$ 20,581,131	$ 13,184,494	$ 48,305,380	$ 48,162,257	$ 68,886,511	$ 61,346,751

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to the prior year for some areas of the financial statements.

Changes in Net Position. Sourcewell's total revenues were $72,392,436 for the year ended June 30, 2018. The majority of revenue is derived from business-like service programs.

The total cost of all programs and services was $64,731,096. Sourcewell's expenses are predominantly related to providing necessary services to members.

This change accounts for the appearance of reduced revenues and expenses, as cooperative purchasing operations continues to see overall growth.

Total revenues surpassed expenses, increasing net position $7,661,340.

Financial Analysis of Sourcewell's Funds

The financial performance of Sourcewell as a whole is reflected in its governmental funds as well. As Sourcewell completed the year; its governmental funds reported a combined fund balance of $12,841,604. Revenues for Sourcewell's governmental funds were $2,392,700, while total expenses were $10,830,830.

The financial position of Sourcewell continues to remain strong. Cooperative purchasing agreements generated administrative fees of $37,570,087 down from $37,857,398 the previous fiscal year, as restated. In addition, Sourcewell continues to actively market the insurance pool and anticipates growth in this area over the next fiscal year.

General Fund

The General Fund includes the primary operations of Sourcewell in providing services to our members. Since 1995, Sourcewell has experienced an increase in membership due a change in legislation allowing Sourcewell to offer services to Cities, Counties, and Other Governmental Agencies. We anticipate growth in that membership base over the coming years.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
Other local sources	$ 1,628,749	$ 1,948,409	$ (319,660)	-16.4%
Federal sources	763,951	877,992	(114,041)	-13.0%
State sources	-	61,298	(61,298)	-100.0%
Total General Fund revenues	$ 2,392,700	$ 2,887,699	$ (494,999)	-17.1%

Total General Fund Revenue decreased by $494,999 or 17.1% from the previous year. General fund revenue is determined by membership fees and state, federal and local grants and miscellaneous local revenues received from services. An internal transfer between the cooperative purchasing fund and the general fund accounts for membership fees. No membership fees are actually collected from the member. The decrease in General Fund revenues was due to a decrease in federal grants, a rebate received in 2017 for building construction, and revenues of approximately $128,000 in 2017 related to contracts entered to allowance for doubtful accounts in prior years for which proceeds were not expected to be received.

The following schedule presents a summary of General Fund Expenditures:

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2018	2017 (As Restated)		
Administration	$ 1,461,867	$ 550,307	$ 911,560	165.6%
District support services	15,801,617	11,643,500	4,158,117	35.7%
Regular instruction	78,013	107,806	(29,793)	-27.6%
Instructional Support Services	2,815,901	1,916,169	899,732	
Special education instruction	721,845	849,687	(127,842)	-15.0%
Pupil support services	834,116	768,300	65,816	8.6%
Sites and buildings	1,272,698	588,646	684,052	116.2%
Fiscal and other fixed cost programs	112,782	38,554	74,228	192.5%
Indirect expenditures charged to business-type activities	(12,782,940)	(8,320,536)	(4,462,404)	53.6%
Total General Fund expenditures	$ 10,315,899	$ 8,142,433	$ 2,173,466	26.7%

Total General Fund expenditures increased by $2,173,466 or 26.7% from the previous year and is due primarily to growth in overall members.

General Fund Budgetary Highlights

Sourcewell adopted its original budget in June by state of Minnesota statute, and revised the budget in June when the federal and state grant and aid funding levels were available.

Sourcewell's final General Fund results when compared to the revised budget are:

- Actual revenues were $468,212 less than expected due to planning and zoning revenues from cities and counties being less than anticipated, investments performing below expectations, and region members utilizing IT shared services less than expected.
- The actual expenditures were $2,037,058 less than budget primarily due to lower bids than expected on capital projects and hiring additional administrative staff later in the year than anticipated.

Major Proprietary Fund Highlights

Expenditures exceeded revenues before transfers in Risk Management by $1,135,309 and revenues exceeded expenditures before transfers in Cooperative Purchasing by $17,352,329. The increase in Cooperative Purchasing is due to an increase in the number of contracts offered and utilized by members, thus increasing the administrative revenues received.

Capital Assets

By the end of 2018, Sourcewell had net investments of $12,536,462 in capital assets consisting of land, buildings, land improvements, and equipment. Total depreciation expense for the year was $1,447,923. More detailed information about Sourcewell's capital assets is presented in Note 4 in the financial statements.

Long-Term Liabilities

At June 30, 2018, Sourcewell had $505,516 in compensated absences. Also at year end, Sourcewell has $9,158,626 in net pension liability and $214,716 in OPEB liability. More detailed information about Sourcewell's long-term liabilities are presented in Notes 5, 8, and 9 in the financial statements.

Factors Bearing on Sourcewell's Future

Because Sourcewell is financed primarily through administrative fees it is important that we maintain a level of loyalty from our members by continuing to offer necessary programs and services to our membership base. Most of our finances depend on our membership and vendor contract participation, maintaining our health insurance pools, and future legislative changes.

In addition, when the economy weakens, Sourcewell programs and purchasing contracts become more valuable to our members. As the economy improves, it will be Sourcewell's goal to maintain the value we offer to our members.

Contacting Sourcewell's Financial Management

This financial report is designed to provide Sourcewell's members, customers, and creditors with a general overview of Sourcewell's finances and to demonstrate Sourcewell's accountability for the money it receives. If you have any questions about this report or would like additional financial information, contact Mike Carlson, Director of Finance, at Sourcewell, 202 12th Street NE, Staples, MN 56479.

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 13,441,251	$ 42,433,753	$ 55,875,004
Receivables			
Accounts receivable	49,349	10,907,239	10,956,588
Due from other governmental units	314,389	624,248	938,637
Prepaid items	583,248	105,385	688,633
Capital assets, net of accumulated depreciation where applicable			
Land	274,548	-	274,548
Buildings	8,964,167	-	8,964,167
Land improvements	275,797	-	275,797
Equipment	3,021,950	-	3,021,950
Total assets	26,924,699	54,070,625	80,995,324
Deferred Outflows of Resources			
Other post-employment benefits	5,722	2,692	8,414
Pension plans	4,002,386	964,966	4,967,352
Total deferred outflows of resources	4,008,108	967,658	4,975,766
Liabilities			
Accounts payable	834,481	1,339,949	2,174,430
Payroll deductions	105,628	38,219	143,847
Salaries payable	606,524	221,867	828,391
Health claims payable	-	2,500,000	2,500,000
Long-term liabilities			
Due within one year:			
Compensated absences	115,412	53,093	168,505
Due in more than one year:			
Compensated absences	230,824	106,187	337,011
Other post-employment benefits	146,007	68,709	214,716
Net pension liability	7,115,767	2,042,859	9,158,626
Total liabilities	9,154,643	6,370,883	15,525,526
Deferred Inflows of Resources			
Other post-employment benefits	3,161	1,488	4,649
Pension plans	1,193,872	360,532	1,554,404
Total deferred inflows of resources	1,197,033	362,020	1,559,053
Net Position			
Investment in capital assets	12,536,462	-	12,536,462
Restricted	-	157,928	157,928
Committed	5,400,000	-	5,400,000
Unrestricted	2,644,669	48,147,452	50,792,121
Total net position	$ 20,581,131	$ 48,305,380	$ 68,886,511

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
Administration	$ 12,190	$ 2,015	$ -	$ (10,175)	$ -	$ (10,175)
District support services	5,576,221	438,714	-	(5,137,507)	-	(5,137,507)
Instructional Support Services	2,817,578	-	-	(2,817,578)	-	(2,817,578)
Regular instruction	78,013	20,045	-	(57,968)	-	(57,968)
Special education instruction	734,850	225,916	538,035	29,101	-	29,101
Pupil support services	844,116	837,945	-	(6,171)	-	(6,171)
Sites and buildings	593,665	6,707	-	(586,958)	-	(586,958)
Fiscal and other fixed cost programs	120,231	-	-	(120,231)	-	(120,231)
Total governmental activities	10,776,864	1,531,342	538,035	(8,707,487)	-	(8,707,487)
Business-type activities						
Risk management	33,736,474	32,637,916	-	-	(1,098,558)	(1,098,558)
Cooperative purchasing	20,217,758	37,570,087	-	-	17,352,329	17,352,329
Total business-type activities	53,954,232	70,208,003	-	-	16,253,771	16,253,771
Total	$ 64,731,096	$ 71,739,345	$ 538,035	(8,707,487)	16,253,771	7,546,284
General Revenues and Transfers						
Aids and payments from state				7,450	-	7,450
Unrestricted investment earnings (loss)				(18,767)	(215,717)	(234,484)
Miscellaneous				342,090	-	342,090
Transfers in (out)				15,894,931	(15,894,931)	-
Total general revenues and transfers				16,225,704	(16,110,648)	115,056
Change in net position				7,518,217	143,123	7,661,340
Net position - beginning, as restated (Note 10)				13,062,914	48,162,257	61,225,171
Net position - ending				$ 20,581,131	$ 48,305,380	$ 68,886,511

	General Fund
Assets	
Cash and investments	$ 13,441,251
Receivables	
Accounts	49,349
Due from other governmental units	314,389
Prepaid items	583,248
Total assets	$ 14,388,237
Liabilities	
Accounts payable	$ 834,481
Payroll deductions	105,628
Salaries payable	606,524
Total liabilities	1,546,633
Fund balance	
Nonspendable for prepaid items	583,248
Unassigned	12,258,356
Total fund balance	12,841,604
Total liabilities and fund balance	$ 14,388,237

Total Fund Balance - Governmental Funds	$ 12,841,604
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds.	12,536,462
Deferred outflows and inflows of resources related to pension are applicable to future periods and, therefore, are not reported in the funds	2,808,514
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds	2,561
Total OPEB obligation liabilities are not recognized in the funds.	(146,007)
Long-term liabilities, including severance payable, compensated absences, and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds.	(7,462,003)
Total Net Position - Governmental Activities	$ 20,581,131

	General Fund	Capital Projects	Total
Revenues			
Other local and county revenues	$ 1,628,749	$ -	$ 1,628,749
Revenue from federal sources	763,951	-	763,951
Revenue from state sources	-	-	-
Total revenues	2,392,700	-	2,392,700
Expenditures			
Current			
Administration	416,991	-	416,991
District support services	15,801,617	-	15,801,617
Regular instruction	78,013	-	78,013
Instructional support services	2,815,901	-	2,815,901
Special education instruction	721,845	-	721,845
Pupil support services	834,116	-	834,116
Sites and buildings	478,424	-	478,424
Fiscal and other fixed cost programs	112,782	-	112,782
Indirect expenditures charged to business-type activities	(12,782,940)	-	(12,782,940)
Capital outlay			
Administration	1,044,876	-	1,044,876
Equipment, sites and buildings	794,274	514,931	1,309,205
Total expenditures	10,315,899	514,931	10,830,830
Deficiency of Revenues Under Expenditures	(7,923,199)	(514,931)	(8,438,130)
Other Financing Sources			
Transfer in	15,380,000	514,931	15,894,931
Net Change in Fund Balance	7,456,801	-	7,456,801
Fund Balance, Beginning of Year	5,384,803	-	5,384,803
Fund Balance, End of Year	$ 12,841,604	$ -	$ 12,841,604

Net Change in Fund Balance - Governmental Funds	$ 7,456,801
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	850,690
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(661,443)
In the statement of activities OPEB obligations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(21,866)
In the statement of activities severance payable and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(105,965)
Change in Net Position of Governmental Activities	$ 7,518,217

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Other local and county revenues	$ 1,986,973	$ 1,628,749	$ (358,224)
Revenue from federal sources	873,939	763,951	(109,988)
Total revenues	2,860,912	2,392,700	(468,212)
Expenditures			
Current			
Administration	527,335	416,991	110,344
District support services	17,509,105	15,801,617	1,707,488
Regular instruction	84,445	78,013	6,432
Instructional Support Services	3,594,995	2,815,901	779,094
Special education instruction	873,939	721,845	152,094
Pupil support services	895,270	834,116	61,154
Sites and buildings	602,315	478,424	123,891
Fiscal and other fixed cost programs	81,726	112,782	(31,056)
Indirect expenditures charged to business-type activities	(14,189,803)	(12,782,940)	(1,406,863)
Capital Outlay			
Administration	1,465,000	1,044,876	420,124
Equipment	908,630	794,274	114,356
Total expenditures	12,352,957	10,315,899	2,037,058
Deficiency of Revenues Under Expenditures	(9,492,045)	(7,923,199)	1,568,846
Other Financing Sources			
Transfer in	10,380,000	15,380,000	5,000,000
Net Change in Fund Balance	$ 887,955	7,456,801	$ 6,568,846
Fund Balance, Beginning of Year		5,384,803	
Fund Balance, End of Year		$ 12,841,604	

	Risk Management	Cooperative Purchasing	Total Proprietary Funds
Assets			
Cash and investments	$ 7,204,697	$ 35,229,056	$ 42,433,753
Accounts receivable	344,407	10,562,832	10,907,239
Due from other governmental units	624,248	-	624,248
Prepaid items	1,746	103,639	105,385
Total assets	8,175,098	45,895,527	54,070,625
Deferred Outflows of Resources			
Other post-employment benefits	168	2,524	2,692
Pension plans	60,310	904,656	964,966
Total deferred outflows of resources	60,478	907,180	967,658
Liabilities			
Accounts payable	422,067	917,882	1,339,949
Payroll deductions	1,233	36,986	38,219
Salaries payable	7,952	213,915	221,867
Health claims payable	2,500,000	-	2,500,000
Long-term liabilities			
Due within one year - compensated absences	3,123	49,971	53,093
Due in more than one year:			
Compensated absences	6,245	99,941	106,187
Other post-employment benefits	4,294	64,415	68,709
Net pension liability	127,679	1,915,180	2,042,859
Total liabilities	3,072,593	3,298,290	6,370,883
Deferred Inflows of Resources			
Other post-employment benefits	93	1,395	1,488
Pension plans	22,533	337,999	360,532
Total deferred inflows of resources	22,626	339,394	362,020
Net Position			
Restricted for partially self-insured program	157,928	-	157,928
Unrestricted	4,982,429	43,165,023	48,147,452
Total net position	$ 5,140,357	$ 43,165,023	$ 48,305,380

	Risk Management	Cooperative Purchasing	Total Proprietary Funds
Operating Revenues			
Contributions from participants	$ 32,054,053	$ -	$ 32,054,053
Administrative fees	7,453	37,570,087	37,577,540
Drug rebates	576,410	-	576,410
Total operating revenues	32,637,916	37,570,087	70,208,003
Operating Expenses			
Salaries and wages	186,123	3,090,832	3,276,955
Employee benefits	1,648	952,231	953,879
Purchased services	55,467	379,281	434,748
Supplies and materials	143	14,253	14,396
Travel	26,597	246,172	272,769
Indirect costs from governmental activities	175,000	12,607,940	12,782,940
Marketing	-	675,326	675,326
Insurance claims, premiums, and expenses	29,568,797	-	29,568,797
Other expenses	3,722,699	2,251,723	5,974,422
Total operating expenses	33,736,474	20,217,758	53,954,232
Operating Income (Loss)	(1,098,558)	17,352,329	16,253,771
Nonoperating Items			
Investment loss	(36,751)	(178,966)	(215,717)
Change in Net Position Before Transfers	(1,135,309)	17,173,363	16,038,054
Transfers Out	-	(15,894,931)	(15,894,931)
Change in Net Position After Transfers	(1,135,309)	1,278,432	143,123
Net Position, Beginning of Year, As Restated (Note 10)	6,275,666	41,886,591	48,162,257
Net Position , End of Year	$ 5,140,357	$ 43,165,023	$ 48,305,380

	Risk Management	Cooperative Purchasing	Total Proprietary Funds
Operating Activities			
Receipts from sales to customers	$ 7,453	$ 36,287,543	$ 36,294,996
Receipts from participants	31,817,893	-	31,817,893
Receipts from insurance company	576,410	-	576,410
Payments to suppliers for goods and services	(55,610)	(3,201,377)	(3,256,987)
Payments made to employees	(182,444)	(3,912,761)	(4,095,205)
Payments for insurance claims and administration	(29,335,380)	-	(29,335,380)
Payments for other operating expenses	(3,924,296)	(12,854,112)	(16,778,408)
Net cash from (used for) operating activities	(1,095,974)	16,319,293	15,223,319
Capital and Related Financing Activities			
Total other post-employment benefits liability and related deferred inflows and outflows of resources	643	9,648	10,291
Net pension liability and related deferred inflows and outflows of resources	(46,229)	143,449	97,220
Transfer to other funds	-	(15,894,931)	(15,894,931)
Net cash used for capital and related financing activities	(45,586)	(15,741,834)	(15,787,420)
Investing Activity			
Investment income	(36,751)	(178,966)	(215,717)
Net Change in Cash and Investments	(1,178,311)	398,493	(779,818)
Cash and Investments, July 1	8,383,008	34,830,563	43,213,571
Cash and Investments, June 30	$ 7,204,697	$ 35,229,056	$ 42,433,753
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities			
Operating income (loss)	$ (1,098,558)	$ 17,352,329	$ 16,253,771
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities			
Changes in assets and liabilities			
Accounts receivable	66,396	(1,282,544)	(1,216,148)
Due from other governmental units	(302,556)	-	(302,556)
Prepaid items	296,577	(90,905)	205,672
Accounts payable	(63,160)	210,111	146,951
Payroll deductions	86	20,610	20,696
Salaries payable	767	117,154	117,921
Compensated absences	4,474	(7,462)	(2,988)
Net cash from (used for) operating activities	$ (1,095,974)	$ 16,319,293	$ 15,223,319

Note 1 - Summary of Significant Accounting Policies

A. Organization

Sourcewell (previously known as National Joint Powers Alliance, or NJPA), a Minnesota Service Cooperative, is a public corporation and agency chartered as an educational institution on January 12, 1978, and operates pursuant to applicable *Minnesota statutes*. The governing body consists of an eight member board elected by participating school districts and other governmental unit members of Sourcewell to serve four-year terms.

The primary purpose of a Service Cooperative, as stated in MN Statute Section 123A.21, subd 2, is to perform planning on a regional basis and to assist in meeting specific needs of clients in participating governmental units which could be better provided by a Service Cooperative than by the members themselves. For these purposes, Sourcewell offers administrative services, teaching and learning services (including service for students with special talents and special needs), fiscal services and risk management (as described below), and cooperative purchasing services.

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

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise Sourcewell, along with any component units.

Component units are legally separate entities for which Sourcewell (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial burden or benefit with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of Sourcewell.

Sourcewell is also a participant in, and a sponsor of, a public entity risk pool established as a health insurance purchasing pool. Members may withdraw from the pool at any time (but at least five months prior to renewal) upon 153 days written notice to the Board and to all Providers of programs in which it participates, but to rejoin the pool the member must wait one year. Any net investment a withdrawing member has with the pool remains with the pool. The agreement for formation of the pools provides that the pool will be self-insured through member premiums and will reinsure through commercial companies for claims in excess of $212,000 for each insured event. Members are not subject to a supplemental assessment in the event of deficiencies. If the assets of the pool were to be exhausted, members would be responsible for the pool's liabilities. The pool is currently administered by HealthPartners, Inc.

The objective of the pool is to procure and manage insurance programs at lower costs. Members fund this program by remitting to Sourcewell an actuarially determined premium. A fee is paid to HealthPartners on a monthly basis for administering the program. The claims portion is remitted to HealthPartners on a weekly basis. Any remaining amounts are held by pool to fund any future insurance claims.

HealthPartners, and Sourcewell on an annual basis, calculate an estimate of future claims based on claims experience and actuarial studies to determine premiums.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of Sourcewell. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Sourcewell applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, Sourcewell generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to *Minnesota Statutes*. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Sourcewell reports the following major governmental funds:

- General Fund – This is the general operating fund of Sourcewell and accounts for all financial resources and transactions except those required to be accounted for in other funds.

- Capital Projects – The capital projects fund is used to account for the accumulation of resources for construction or purchase of capital facilities.

Sourcewell reports the following major proprietary funds:

- Risk Management – This fund is used to account for the operation of Sourcewell's self-insured health insurance pool. All premiums collected from the participating agencies and all claims and administration charges paid by Sourcewell for health insurance are accounted for in this fund. Sourcewell also records expenses incurred for operating the pool in this fund.

- Cooperative Purchasing – This fund is used to account for the revenues and expenses generated by competitively solicited bids that have been awarded by Sourcewell on a local, state, or national level. Revenues and expenses from vendor marketing agreements are also recorded in this fund.

With respect to proprietary activities Sourcewell has adopted GASB statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside Sourcewell that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Sourcewell's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Other Significant Accounting Policies

Budgeting

Budgets are prepared for Sourcewell funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level.

Cash and Investments

Sourcewell considers cash and investments to be money market funds and other highly liquid investments with original maturities of three months or less. In addition, investments include U.S. government securities, certificates of deposit, and municipal bonds. They are carried at fair value.

Receivables

The carrying amount of the receivables has been reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected.

Receivables in the cooperative purchasing fund are estimates for all administrative fees to be received subsequent to June 30 that relate to sales that occurred during the current fiscal year. These administrative fees are often received up to 18 months after the fiscal year to which they relate, causing the year-end receivable accrual to be an estimate that is material to the financial statements.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. Sourcewell maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide statements but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 50 years.

Health Claims Payable

The health claims payable is an actuarial calculation prepared by HealthPartners and Sourcewell based on claims incurred in the past twelve months plus a completion factor. The Pool has reserved investments in excess of the liability. Management believes the liability based on actuarial calculations from the prior year adequately reflects the estimated health claims payable for the current year ended June 30, 2018.

Compensated Absences Payable

- Vacation – Sourcewell compensates substantially all full-time employees for unused vacation upon termination. The expenditure for vacation pay is recognized when payment is made. As of June 30, 2018, a liability has been recorded in the financial statements related to these compensated absences.

- Unable to Work Pay – Substantially all Company employees are allowed to accrue sick leave at varying amounts each year and accumulate within specified limits. Since the employees accumulating rights to receive compensation for future absences being caused by future illnesses such amounts cannot be reasonably estimated, a liability for unused sick leave has not been recorded in the financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA’s and TRA’s fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher’s Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 8.

For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and 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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. Sourcewell has three items that qualify for reporting in this category. They are the contributions made to pension plans and other postemployment benefit plan after the measurement date and prior to the fiscal year-end and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Sourcewell has two types of items that qualify for reporting in this category. Sourcewell reports changes in the net pension liability not included in pension expense reported in the government-wide statement of net position and changes in the other postemployment benefit plan liability not included in other postemployment benefit plan expense reported in the government-wide statement of net position.

Risk Management

Sourcewell is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which Sourcewell carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in Sourcewell's insurance coverage in fiscal year 2018.

Implementation of GASB Statement No. 75

As of July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard improves the usefulness of information about and improves accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The effect of the implementation of this standard on net position is disclosed in Note 10 and the additional disclosures required by this standard is included in Note 9.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in Sourcewell's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes amounts 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 which is the Board of Directors through a resolution.

- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

- Unassigned fund balance represents residual classification. This classification represents fund balance not assigned to other funds and not 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. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

Sourcewell did not adopt a fund balance policy as of June 30, 2018 therefore there are no committed or assigned fund balances.

Premium Contributions

Contributions are made monthly by participating organizations and their respective employees. The contributions funding rates are determined by the Management team based on actuarial data provided by the reinsurance provider. Employee contribution percentages vary between organizations based on employer discretion.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Deposits and Investments

Deposits

In accordance with Minnesota statutes, Sourcewell maintains deposits at those depositories authorized by the Governing Board. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

- Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, Sourcewell's deposits may be lost.

Minnesota statutes require that all Company deposits be protected by federal deposit insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping by Sourcewell treasurer or in a financial institution other than that furnishing the collateral. The deposits of Sourcewell are entirely insured or collateralized with securities held by Sourcewell or its agent in Sourcewell's name at June 30, 2018.

Investments

Statutes authorize Sourcewell to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

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

		Investment Maturities (in Years)			
Investment Type	Fair Value	Not Applicable	< 1	1 - 5	> 5-10
Cash and Cash Equivalents					
Deposits	$ 4,524,041	$ 4,524,041	$ -	$ -	$ -
Investments					
Money Market	1,762,142	1,762,142	-	-	-
U.S. Government Securities	33,190,408	-	3,818,489	10,477,455	18,894,464
Certificates of Deposit	646,173	-	646,173	-	-
Municipal Bonds	15,752,240	-	299,529	7,041,680	8,411,031
	$ 55,875,004	$ 6,286,183	$ 4,764,191	$ 17,519,135	$ 27,305,495

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

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

- U.S. Treasury securities of $33,190,408 are valued using quoted market prices (Level 1 inputs)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Beyond what is stated in state statutes, Sourcewell does not have a formal policy to further limit its exposure to credit risk. As of June 30, 2018, all of Sourcewell's investments were not rated.

Interest Rate Risk-Investments

Sourcewell does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 3 - Due from other Governmental Units

Amounts receivable from other governments as of June 30, 2018, include:

Fund	Federal	State	Other	Total
General	$ 159,955	$ 46,344	$ 108,090	$ 314,389
Risk Management	-	280,723	343,525	624,248
	$ 159,955	$ 327,067	$ 451,615	$ 938,637

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2018 is a follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities				
Capital assets, not being depreciated				
Land	$ 274,048	$ 500	$ -	$ 274,548
Capital assets being depreciated				
Buildings	9,974,474	146,062	-	10,120,536
Land Improvements	323,973	-	-	323,973
Equipment	4,629,254	2,207,519	201,893	6,634,880
Total capital assets being depreciated	14,927,701	2,353,581	201,893	17,079,389
Less accumulated depreciation for				
Buildings	890,875	265,494	-	1,156,369
Land Improvements	26,578	21,598	-	48,176
Equipment	2,598,524	1,160,831	146,425	3,612,930
Total accumulated depreciation	3,515,977	1,447,923	146,425	4,817,475
Capital assets being depreciated, net	11,411,724	905,658	55,468	12,261,914
Governmental activities capital assets, net	$ 11,685,772	$ 905,158	$ 55,468	$ 12,536,462

Depreciation expense for the year ended June 30, 2018 was charged to the following functions/programs:

Governmental activities	
Sites and buildings	$ 1,447,923

Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Governmental activities					
Compensated absences	$ 240,271	$ 192,217	$ 154,019	$ 346,236	$ 115,412
Business-type activities					
Compensated absences	$ 162,268	$ 7,146	$ 10,134	$ 159,280	$ 53,093

- Compensated Absences – This amount consists of a calculation based on accrued vacation days and employees rate of pay. Compensated absences are paid out of the general fund, risk management fund, and cooperative purchasing funds.

Note 6 - Health Claims Payable

As discussed in Note 1, Sourcewell establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for Sourcewell during the year ended June 30, 2018. For comparative reasons the reconciliation of unpaid claims liabilities at June 30, 2017 is also presented.

	2018	2017
Health claims payable, beginning balance	$ 2,500,000	$ 2,500,000
Incurred claims		
Provision for insured events of current year	23,816,547	23,816,547
Increase (decrease) in provision for insured events of prior years	521,649	601,343
Total incurred claims	24,338,196	24,417,890
Payments		
Claims attributable to insured events of current year	(22,069,158)	(22,069,158)
Claims attributable to insured events of prior years	(2,269,038)	(2,348,732)
Total payments	(24,338,196)	(24,417,890)
Health claims payable, ending balance	$ 2,500,000	$ 2,500,000

Note 7 - Interfund Transfers

During the year ended June 30, 2018 $15,380,000 was transferred from the Cooperative Purchasing Fund to the General Fund and $514,931 was transferred from the Cooperative Purchasing Fund to the Capital Projects Fund. The total transfer was made up of $15,380,000 to fund various departments in the general fund and $514,931 to close the Capital Projects Fund for submission to UFARS. The Capital Projects Fund was previously used for building projects throughout the year.

Note 8 - Defined Benefit Pension Plans

Substantially all employees of Sourcewell are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Public Employees' Retirement Association (PERA) or the Teachers' Retirement Association (TRA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Descriptions

Sourcewell participates in the following cost-sharing multiple employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of Sourcewell, other than teachers, are covered by General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested Terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019. For retirements on or after January 1, 20124, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 20 will receive a pro rata increase.

C. Contribution Rate

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018. Sourcewell was required to contribute 7.5% for Coordinated Plan members. Sourcewell's contributions to the GERF for the year ended June 30, 2018, were $624,632. Sourcewell's contributions were equal to the required contributions for each year as set by state statute.

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study for GERF was completed in 2015, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were 0.8% for active members and 60.0% for vested and non-vested deferred member liability. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00% per year for all years to 1.00% per year through 2044 and 2.50% per year thereafter. For accounting purposes, this change was treated as a difference between expected and actuarial experience.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. 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 Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current active 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.

F. Pension Costs

At June 30, 2018, Sourcewell reported a liability of $6,383,934 for its proportionate share of the GERF's net pension liability. Sourcewell's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with Sourcewell totaled $80,304. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell's proportion of the net pension liability was based on Sourcewell's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Sourcewell's proportion was 0.1000%, which was an increase of 0.0147% from June 30, 2016.

For the year ended June 30, 2018, Sourcewell recognized pension expense of $560,248 for its proportionate share of GERF's pension expense. In addition, Sourcewell recognized an additional $2,319 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

At June 30, 2018, Sourcewell reported its proportionate share of GERF’s deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 210,395	$ 343,616
Changes in actuarial assumptions	904,070	639,990
Difference between projected and actual investment earnings	-	143,058
Change in proportion and differences between contributions made and employer's proportionate share of contributions	1,276,422	-
Employer's contributions to GERF subsequent to the measurement date	624,632	-
Total	$ 3,015,519	$ 1,126,664

$624,632 reported as deferred outflows of resources related to pensions resulting from Sourcewell contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ 554,610
2020	622,196
2021	134,609
2022	(47,192)
2023	-

G. Pension Liability Sensitivity

The following presents Sourcewell's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what Sourcewell's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 9,901,956	$ 6,383,934	$ 3,503,794

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Teachers Retirement Association (TRA)

A. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

Tier1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are prior to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
(b) 3 percent per year early retirement reduction factor for all years under normal retirement age.
(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ending June 30, 2017, and June 30, 2018 were:

	Employees	Employers
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$ 367,791,000
Add employer contributions not related to future contribution efforts	810,000
Deduct TRA's contributions not included in allocation	(456,000)
Total employer contributions	368,145,000
Total non-employer contributions	35,588,000
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 403,733,000

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2017
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	5.12%, from the Single Equivalent Interest Rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, thereafter
Projected salary increase	2.85 to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Cost of living adjustment	2.00%
Mortality assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2017 is 6 years. The “Difference Between Expected and Actual Experience,” “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.00% annually to 2.50% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50% but remain at 2.00% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.40% to 0.00%, the vested inactive load increased from 4.00% to 7.00% and the non-vested inactive load increased from 4.00% to 9.00%.
- The investment rate of return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

F. Net Pension Liability

At June 30, 2018, Sourcewell reported a liability of $2,774,692 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell's proportion of the net pension liability was based on Sourcewell's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. Sourcewell's proportionate share was 0.0139% at the end of the measurement period and 0.0103% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by Sourcewell as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with Sourcewell were as follows:

Employer's proportionate share of net pension liability	$ 2,774,692
State's proportionate share of the net pension liability associated with the employer	$ 267,452

For the year ended June 30, 2018, Sourcewell recognized pension expense of $215,589. It also recognized $5,130 as an increase to pension expense for the support provided by direct aid.

At June 30, 2018, Sourcewell reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 326	$ 19,464
Changes in actuarial assumptions	1,116,215	388,691
Difference between projected and actual investment earnings	-	19,585
Change in proportion and differences between contributions made and employer's proportionate share of contributions	758,441	-
Employer's contributions to TRA subsequent to the measurement date	76,851	-
Total	$ 1,951,833	$ 427,740

$76,851 was reported as deferred outflows of resources related to pensions resulting from Sourcewell contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018**.**

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

Years Ended June 30,	Pension Expense Amount
2019	$ 366,872
2020	366,872
2021	348,128
2022	303,875
2023	61,495

G. Pension Liability Sensitivity

The following presents Sourcewell's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 3,662,059	$ 2,774,692	$ 2,026,534

Sourcewell's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651-296-2409 or 800-657-3669.

Note 9 - Other Post-Employment Benefits

A. Plan Descriptions

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in Sourcewell's health insurance plan after retirement. This plan covers active and retired employees who have reached age 55 with at least 3 years of service. In addition, the senior leadership team has subsidized benefits. Benefit provisions are established through negotiations between Sourcewell and the union representing cooperative employees and are renegotiated at the end of each contract period. A separately issued report is not available.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of $690 for single and $1,590 for family coverage. The implicit rate subsidy is only until Medicare eligibility. The senior leadership team employees who have reached age 55 with at least 3 years of service will receive a retiree benefit of Sourcewell contributing the cost of the single coverage premium until Medicare eligibility. There are no subsidized post-employment dental or life insurance benefits.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	101
	101

D. Total OPEB Liability

Sourcewell's total OPEB liability of $214,716 was measured as of July 1, 2017 and was determined by an actuarial valuation as of July 1, 2016.

E. Actuarial Assumptions

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent	
Salary increases	3.00 percent	
Discount rate	3.40 percent	
Healthcare cost trend rates	6.50 percent as of July 1, 2017 grading to 5.00% over 6 years	
Retiree plan participation	Future retirees electing coverage:	
	Pre-65 subsidy available:	100%
	Pre-65 subsidy not available:	25%
Percent of married retirees electing spouse coverage	Percent future retirees electing pre-65 coverage:	
	Spouse subsidy available	N/A
	Spouse subsidy not available	5%

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables (de-trended to 2006) and then projected beyond the valuation date using scale MP-2016.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study as of July 1, 2016.

F. Changes in the Total OPEB Liability

Balance at June 30, 2017	$ 178,794
Changes from the Prior Year:	
Service cost	37,868
Interest cost	6,243
Assumption changes	(5,424)
Benefit payments	(2,765)
Net Change	35,922
Balance at June 30, 2018	$ 214,716

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of Sourcewell, as well as what Sourcewell's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.40%	3.40%	4.40%
Total OPEB Liability	$ 230,732	$ 214,716	$ 199,670

The following presents the total OPEB liability of Sourcewell, as well as what Sourcewell's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Medical trend rate	5.50% decreasing to 4.00% over 5 years	6.50% decreasing to 5.00% over 5 years	7.50% decreasing to 6.00% over 5 years
Total OPEB Liability	$ 188,130	$ 214,716	$ 246,514

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

For the year ended June 30, 2018, Sourcewell recognized OPEB expense of $43,336. At June 30, 2018, Sourcewell reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made after the measurement date	$ 8,414	$ -
Assumption changes	-	4,649
	$ 8,414	$ 4,649

$8,414 reported as deferred outflows of resources related to OPEB resulting from Sourcewell's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

$4,649 reported as deferred inflows of resources related to OPEB resulting from changes in assumptions will be recognized in OPEB expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ (775)
2020	(775)
2021	(775)
2022	(775)
2023	(775)
Thereafter	(774)

Note 10 - Adoption of New Standard and Restatement of Beginning Net Position

As of July 1, 2017 Sourcewell adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standards replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net positions for governmental activities and business-type activities were restated to retroactively report the prior OPEB liability reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability.

Also, after review of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Sourcewell has determined that previously reported net position in the business-type activities and Cooperative Purchasing fund was understated due to not including all of the administrative fees receivable at year-end. As a result, the beginning net position of the business-type activities and Cooperative Purchasing fund has been restated.

The adjustment to the beginning net position is as follows:

	Governmental Activities
Net Position - June 30, 2017, as previously reported	$ 13,184,494
Add total OPEB liability under GASB Statement No. 75 at June 30, 2017	(121,580)
Net Position - July 1, 2017, as restated	$ 13,062,914

	Risk Management	Cooperative Purchasing	Total Business-Type Activities
Net Position - June 30, 2017, as previously reported	$ 6,279,242	$ 33,536,408	$ 39,815,650
Add total OPEB liability under GASB Statement No. 75 at June 30, 2017	(3,576)	(53,638)	(57,214)
Restatement to include administrative fees receivable at June 30, 2017	-	8,403,821	8,403,821
Net Position - July 1, 2017, as restated	$ 6,275,666	$ 41,886,591	$ 48,162,257

Note 11 - Subsequent Event

Effective July 27, 2018, Sourcewell entered into a joint powers agreement with Metropolitan Educational Cooperative Service Unit (“Metro ECSU”) and the member school districts of the Technology and Informational Educational Services (“TIES”), to form the operating entity of Sourcewell Technology. TIES is an organization that provides technology products and tech support to school districts, and will continue in the name “Sourcewell Technology.”

The Board of Directors consists of 10 voting directors and one ex-officio, non-voting director as follows:

a. 8 voting members who are members of the Sourcewell Board of Directors
b. 2 voting members appointed by Metro ESCU
c. The Executive Director of Metro ECSU, as an ex-officio non-voting director

Sourcewell is solely responsible for making all financial contributions necessary for the operation of Sourcewell Technology. Metro ECSU has no financial obligation or responsibilities related to the operation of Sourcewell Technology.

Sourcewell Technology is the owner of certain land, buildings, and other improvements located in St. Paul, Minnesota, referred to as TIES building assets. The member school districts are to oversee the maintenance, management and disposition of the TIES building assets.

Management intends to report Sourcewell Technology as a blended component unit in the financial statements for the year ended June 30, 2019.

Note 12 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is Statement No. 88, **Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This statement will be implemented at the District in the year ended June 30, 2019.

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect the District is Statement No. 90, Majority Equity Interests. This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This statement will be implemented at the District in the year ended June 30, 2020.

The fourth statement issued but not yet implemented that will significantly affect the District is Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

The final statement issued but not yet implemented that will significantly affect the District is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.

Required Supplementary Information
June 30, 2018

Sourcewell
Staples, Minnesota

Schedule of Changes in Sourcewell's Total OPEB Liability and Related Ratios, Last 10 Fiscal Years*

	2018
Service cost	$ 37,868
Interest cost	6,243
Assumption changes	(5,424)
Benefit payments	(2,765)
Net change in total OPEB liability	35,922
Total OPEB liability - beginning	178,794
Net OPEB liability, end of year	$ 214,716
Covered-employee payroll	$ 6,879,565
District's total OPEB liability as a percentage of covered-employee payroll	3.12%

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Sourcewell will present information for those years for which information is available.

Notes to the Schedule of Changes in Sourcewell's Total OPEB Liability and Related Ratios

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

The table below illustrates how Sourcewell's earned revenues and investment income compare to related costs of loss and other expenses assumed by Sourcewell as of the end of each of the last 10 years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of Sourcewell including overhead and claims expense not allocable to individual claims. (3) This line shows Sourcewell's incurred claims and allocated claim adjustment expense as reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section of 11 rows shows the cumulative amounts paid as of the end of successive years for each policy year.

	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18
1. Net earned required contribution and investment revenues	$ 127,359	$ 1,032,492	$ 1,859,996	$ 434,105	$ (1,359,385)	$ 1,690,357	$ 1,591,039	$ (526,270)	$ 525,610	$ (503,137)	$ (1,231,893)
2. Unallocated expenses	360,516	410,238	475,715	382,332	424,854	398,368	409,470	407,616	430,012	456,522	496,115
3. Estimated incurred claims, both paid and accrued, end of policy year	9,895,756	8,722,396	13,261,165	15,433,839	21,548,197	21,290,530	44,343,649	27,426,447	26,206,513	23,816,547	29,277,391
4. Payments as of:											
End of policy year	9,687,093	9,107,584	12,674,966	15,643,177	21,555,495	19,371,439	42,412,407	26,014,825	25,814,147	22,069,158	28,838,965
One year later	10,632,068	10,225,424	13,743,244	17,265,498	23,284,339	22,146,866	44,053,472	26,714,911	28,192,765	24,345,943	
Two years later	10,629,295	10,224,848	13,772,140	17,277,454	23,219,855	21,137,123	44,039,282	26,685,401	28,178,420		
Three years later	10,625,602	10,224,580	13,109,824	17,209,208	21,412,512	21,135,428	44,038,972	26,684,254			
Four years later	10,624,932	9,128,111	13,101,547	17,277,455	21,412,446	21,135,389	44,046,716				
Five years later	9,747,992	9,127,950	13,109,822	14,533,886	21,412,434	21,135,389					
Six years later	9,747,992	9,128,111	13,121,638	14,533,886	21,412,434						
Seven years later	9,747,992	9,128,379	13,121,638	14,533,886							
Eight years later	9,748,711	9,128,379	13,121,638								
Nine years later	9,748,711	9,128,379									
Ten years later	9,748,711										

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years *

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (c) (a+b)	Employer's Covered Payroll (d)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2017	0.1000%	$ 8,332,030	$ 80,304	$ 8,412,334	$ 6,446,014	129.3%	75.9%
PERA	6/30/2016	0.0853%	$ 6,925,937	$ 90,441	$ 7,016,378	$ 5,291,333	130.9%	68.9%
PERA	6/30/2015	0.0776%	$ 4,021,635	N/A	$ 4,021,635	$ 4,486,773	89.6%	78.2%
PERA	6/30/2014	0.0687%	$ 3,227,182	N/A	$ 3,227,182	$ 3,607,273	89.5%	78.8%
TRA	6/30/2017	0.0139%	$ 2,774,692	$ 267,452	$ 3,042,144	$ 1,024,674	270.8%	51.6%
TRA	6/30/2016	0.0103%	$ 2,456,796	$ 245,862	$ 2,702,658	$ 737,900	332.9%	44.9%
TRA	6/30/2015	0.0096%	$ 593,855	$ 72,994	$ 666,849	$ 535,301	110.9%	76.8%
TRA	6/30/2014	0.0093%	$ 428,537	$ 30,286	$ 458,823	$ 467,255	91.7%	81.5%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Sourcewell will present information for those years for which information is available.

Schedule of Employer's Contributions
Last 10 Fiscal Years *

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
PERA	6/30/2018	$ 624,632	$ 624,632	$ -	$ 8,332,030	7.5%
PERA	6/30/2017	$ 483,559	$ 483,559	$ -	$ 6,446,014	7.5%
PERA	6/30/2016	$ 396,850	$ 396,850	$ -	$ 5,291,333	7.5%
PERA	6/30/2015	$ 336,508	$ 336,508	$ -	$ 4,486,773	7.5%
TRA	6/30/2018	$ 76,851	$ 76,851	$ -	$ 1,024,674	7.5%
TRA	6/30/2017	$ 55,343	$ 55,343	$ -	$ 737,900	7.5%
TRA	6/30/2016	$ 40,141	$ 40,141	$ -	$ 535,301	7.5%
TRA	6/30/2015	$ 36,968	$ 36,968	$ -	$ 492,907	7.5%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Sourcewell will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the TRA's website at www.MinnesotaTRA.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

Other Supplementary Information
June 30, 2018

Sourcewell
Staples, Minnesota

Fiscal Compliance Report - 6/30/2018

District: REGION 5 - ECSU-5 (924-83)

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01 GENERAL FUND

	Audit	UFARS	Audit - UFARS
Total Revenue	$2,392,700	$2,392,699	$1
Total Expenditures	$10,315,899	$10,315,897	$2
Non Spendable:			
4.60 Non Spendable Fund Balance	$583,248	$583,248	$0
Restricted / Reserved:			
4.03 Staff Development	$0	$0	$0
4.06 Health and Safety	$0	$0	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$0	$0	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.45 Career Tech Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	$0	$0	$0
4.50 Pre-Kindergarten	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$0	$0	$0
4.72 Medical Assistance	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$5,400,000	$5,400,000	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$6,858,356	$6,858,355	$1
4.61 Committed Fund Balance	$5,400,000	$5,400,000	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$6,858,356	$6,858,355	$1

02 FOOD SERVICES

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$0	$0	$0
4.32 E.C.F.E	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$0	$0	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

06 BUILDING CONSTRUCTION

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$514,931	$514,931	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

07 DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

20 INTERNAL SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$69,992,286	$69,992,288	($2)
Total Expenditures	$53,954,232	$53,846,723	$107,509
4.22 Unassigned Fund Balance (Net Assets)	$48,305,380	$49,811,311	($1,505,931)

25 OPEB REVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

47 OPEB DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

The Minnesota Department of Education has requested to have Cooperatives and Regions report their data in UFARS without the effects of GASB Statements No. 68 and 75 to have consistent data among reporting entities in UFARS. This table illustrates the difference between the audited financial statements (GAAP) and UFARS.

Risk Management Fund:

	UFARS	GAAP	Difference
Statement of Net Position:			
Deferred Outflows of Resources			
Other post-employment benefits	$ -	$ 168	$ 168
Pension Plans	-	60,310	60,310
Liabilities			
Long-term liabilities			
Due in more than one year:			
Other post-employment benefits	-	4,294	4,294
Net pension liability	-	127,679	127,679
Deferred Inflows of Resources			
Other post-employment benefits	-	93	93
Pension Plans	-	22,533	22,533
Net Position			
Unrestricted	5,076,550	4,982,429	(94,121) *
Statement of Revenues, Expenditures, and Changes in Net Position			
Operating Expenses			
Operations			
Employee benefits	47,234	1,648	(45,586) *

Cooperative Purchasing Fund:

	UFARS	GAAP	Difference	
Statement of Net Position:				
Deferred Outflows of Resources				
Other post-employment benefits	$ -	$ 2,524	$ 2,524	
Pension Plans	-	904,656	904,656	
Liabilities				
Long-term liabilities				
Due in more than one year -				
Other post-employment benefits	-	64,415	64,415	
Net pension liability	-	1,915,180	1,915,180	
Deferred Inflows of Resources				
Other post-employment benefits	-	1,395	1,395	
Pension Plans	-	337,999	337,999	
Net Position				
Unrestricted	44,576,832	43,165,023	(1,411,809)	*
Statement of Revenues, Expenditures, and Changes in Net Position				
Operating Expenses				
Operations				
Employee benefits	799,133	952,231	153,098	*

* Total differences as reported in fund 20, internal service, on the Fiscal Compliance Report:

Total Expenditures	107,512
Unassigned Fund Balance (Net Assets)	(1,505,930)

Additional Reports
June 30, 2018

Sourcewell
Staples, Minnesota

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Sourcewell
Staples, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Sourcewell as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Sourcewell's basic financial statements, and have issued our report thereon dated November 13, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Sourcewell's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sourcewell internal control. Accordingly, we do not express an opinion on the effectiveness of Sourcewell's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2018-A to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Response to Finding
Sourcewell's response to the finding identified in our audit are described in the accompanying schedule of findings. Sourcewell's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Eide Bailly LLP

Fargo, North Dakota
November 13, 2018

CPAs & BUSINESS ADVISORS

Report on *Minnesota Legal Compliance*

To the Board of Directors of
Sourcewell
Staples, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sourcewell as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2018.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit no items came to our attention that caused us to believe that Sourcewell failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Sourcewell's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fargo, North Dakota
November 13, 2018

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Section I – Financial Statement Findings

2018-A Prior Period Restatement
Material Weakness

Criteria: GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, requires that revenue from transactions be recognized at the time the transaction is completed.

Condition: Management determined that revenue related to administrative fees should be recorded at the time the transaction is completed.

Cause: Sourcewell relies on the vendors to report their gross sales to Sourcewell, and when those are reported the amount of administrative fees is known. The reporting by the vendors is sporadic with some providing the information monthly and others lagging multiple months, and even over a year behind when the transactions are completed. During the year ended June 30, 2018, Sourcewell implemented a process to estimate the administrative fees at year-end based on multiple years of historical data.

Effect: Sourcewell restated the beginning net position in the Cooperative Purchase fund.

Recommendation: Sourcewell should continue to monitor the estimate of the administrative fees receivable at year-end to ensure the process leads an estimate that is materially accurate.

View of Responsible Officials: There is no disagreement with the finding.

Section II – Minnesota Legal Compliance Findings

None