



Financial Statements
June 30, 2019

Sourcewell

Staples, Minnesota

Official Directory (unaudited)	1
Independent Auditor’s Report	2
Management’s Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	15
Reconciliation of Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual	19
Proprietary Funds	
Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Net Position	21
Statement of Cash Flows	22
Notes to Financial Statements	23
Required Supplementary Information	
Schedule of Changes in Sourcewell’s Total OPEB Liability and Related Ratios	64
Schedule of Changes in Sourcewell Technology’s Total OPEB Liability and Related Ratios	65
Claims Development Schedule	66
Schedules of Employer’s Share of Net Pension Liability and Schedule of Employer’s	
Contributions	67
Sourcewell	67
Sourcewell Technology	68
Other Supplementary Information	
Schedule of Expenditures of Federal Awards	69
Uniform Accounting and Reporting Standards Compliance Table	
Sourcewell	70
Sourcewell Technology	71
Schedules of Differences between UFARS and GAAP	72
Sourcewell Technology Fund	
Statement of Net Position	75
Statement of Revenues, Expenditures, and Changes in Net Position	76
Statement of Cash Flows	77

Additional Reports

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 <i>Government Auditing Standards</i>	78
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	80
Report on <i>Minnesota Legal Compliance</i>	82
Schedule of Findings and Questioned Costs	83

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	12/31/2022
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	12/31/2022
Greg Zylka - Sub-Region IV	Director	12/31/2020
Management		
Dr. Chad Coquette	Executive Director	
Mike Carlson	Director of Finance	
Michael Brandt	Manager of Accounting, Auditing, and Financial Reporting	
Jonathan Daniel	Sourcewell Technology Chief Financial Officer	



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, 2019, 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.

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, 2019, 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 Matter

Business Combination

As discussed in Note 10 to the financial statements, Sourcewell entered into a joint powers agreement that meets all conditions to be considered a transfer of operations government combination under GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Accordingly, net position as of July 1, 2018 has been adjusted to reflect the transfer of operations. 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, schedule of employer contributions, and claims development schedule 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 comprise 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District.

The schedule of expenditures of federal awards, uniform accounting and reporting standards compliance table and related schedules of differences between uniform accounting and reporting standards and GAAP, and Sourcewell Technology Fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 22, 2019, 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated November 22, 2019 on our consideration of Sourcewell's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for Political Subdivisions in considering Sourcewell's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.



Fargo, North Dakota
November 22, 2019

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, 2019.

Financial Highlights

Key financial highlights for the 2018-2019 fiscal year:

- Sourcewell entered into a joint powers agreement that met the necessary conditions to be considered a transfer of operations business combination, resulting in a decrease in the July 1, 2018 net position of \$5,467,732 due to a new blended component unit, Sourcewell Technology.
- Net position decreased by \$4,394,226. This includes a \$11,578,227 net position decrease to the governmental activities after transfers and a \$7,184,001 net position increase to the business-type activities (Risk Management, Cooperative Purchasing, and Sourcewell Technology) after transfers.
- The Governmental Funds fund balance decreased by \$10,010,025.
- The total Governmental Funds fund balance as of June 30, 2019 is \$2,831,579.
- The Business-Type Funds net position increase (decrease) is summarized below:

Risk Management	\$ (751,426)
Cooperative Purchasing	6,756,880
Sourcewell Technology	<u>1,178,547</u>
Total Business-Type Funds	<u><u>\$ 7,184,001</u></u>

The total Business-Type Funds net position as of June 30, 2019 are \$50,021,649.

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, cooperative purchasing activities, and Sourcewell Technology's software solutions and networking fees. Interest income, drug rebates, and fees for services 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, cooperative purchasing activities, and Sourcewell Technology's software solutions and networking fees. Sourcewell provides services for all funds 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 \$59,024,553 on June 30, 2019.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018*	2019	2018*	2019	2018*
Assets						
Current assets	\$ 4,396,421	\$ 14,388,237	\$ 65,604,131	\$ 54,070,625	\$ 70,000,552	\$ 68,458,862
Capital assets	11,782,289	12,536,462	1,312,853	-	13,095,142	12,536,462
Total assets	16,178,710	26,924,699	66,916,984	54,070,625	83,095,694	80,995,324
Deferred Outflows of Resources	4,828,163	4,008,108	3,335,317	967,658	8,163,480	4,975,766
Liabilities						
Current liabilities	2,165,860	1,662,045	7,211,177	4,153,128	9,377,037	5,815,173
Long-term liabilities	6,649,954	7,492,598	7,040,879	2,217,755	13,690,833	9,710,353
Total liabilities	8,815,814	9,154,643	14,252,056	6,370,883	23,067,870	15,525,526
Deferred Inflows of Resources	3,188,155	1,197,033	5,978,596	362,020	9,166,751	1,559,053
Net Position						
Investment in capital assets	11,782,289	12,536,462	1,166,119	-	12,948,408	12,536,462
Committed	-	5,400,000	-	-	-	5,400,000
Restricted	-	-	972,266	157,928	972,266	157,928
Unrestricted	(2,779,385)	2,644,669	47,883,264	48,147,452	45,103,879	50,792,121
Total net position	\$ 9,002,904	\$ 20,581,131	\$ 50,021,649	\$ 48,305,380	\$ 59,024,553	\$ 68,886,511

*Due to the transfer of operations business combination with Sourcewell Technology in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Sourcewell
Staples, Minnesota
Management's Discussion and Analysis
June 30, 2019

Statement of Activities
Years Ended June 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018*	2019	2018*	2019	2018*
Revenues						
Program revenues						
Charges for service	\$ 1,506,728	\$ 1,531,342	\$ 93,042,471	\$ 70,208,003	\$ 94,549,199	\$ 71,739,345
Operating grants and contributions	615,486	538,035	-	-	615,486	538,035
General revenues						
Unrestricted investment earnings	556,745	(18,767)	2,437,460	(215,717)	2,994,205	(234,484)
State aid	132,408	7,450	895,327	-	1,027,735	7,450
Miscellaneous	1,370,819	342,090	-	-	1,370,819	342,090
Total revenues	4,182,186	2,400,150	96,375,258	69,992,286	100,557,444	72,392,436
Expenses						
Administration	1,410,646	12,190	-	-	1,410,646	12,190
District support services	15,306,571	5,576,221	-	-	15,306,571	5,576,221
Instructional Support Services	7,133,155	2,817,578	-	-	7,133,155	2,817,578
Regular instruction	56,619	78,013	-	-	56,619	78,013
Admin support and shared services	3,781,452	-	-	-	3,781,452	-
Special education instruction	777,166	734,850	-	-	777,166	734,850
Pupil support services	1,557,067	844,116	-	-	1,557,067	844,116
Sites and buildings	799,952	593,665	-	-	799,952	593,665
Fiscal and other						
fixed cost programs	100,873	120,231	-	-	100,873	120,231
Risk management	-	-	39,530,760	33,736,474	39,530,760	33,736,474
Cooperative purchasing	-	-	17,031,787	20,217,758	17,031,787	20,217,758
Sourcewell Technology	-	-	17,880,135	-	17,880,135	-
Total expenses	30,923,501	10,776,864	74,442,682	53,954,232	105,366,183	64,731,096
Nonoperating items, special items, and transfers						
Capital lease interest expense	-	-	(120,361)	-	(120,361)	-
Member withdrawal fees	-	-	5,049,472	-	5,049,472	-
Loss on sale of capital assets	-	-	(3,036,820)	-	(3,036,820)	-
Reorganization payments to members	-	-	(2,083,848)	-	(2,083,848)	-
Member support fees	-	-	606,070	-	606,070	-
Transfers	15,163,088	8,286,676	(15,163,088)	(8,286,676)	-	-
Nonoperating items, special items, and transfers	15,163,088	8,286,676	(14,748,575)	(8,286,676)	414,513	-
Change in Net Position	(11,578,227)	(90,038)	7,184,001	7,751,378	(4,394,226)	7,661,340
Net Position - Beginning, after restatement for transfer of operations on July 1, 2018	20,581,131	13,062,914	42,837,648	48,162,257	63,418,779	61,225,171
Net Position - Ending	\$ 9,002,904	\$ 20,581,131	\$ 50,021,649	\$ 48,305,380	\$ 59,024,553	\$ 68,886,511

*Due to the transfer of operations business combination with Sourcewell Technology in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Changes in Net Position. Sourcewell's total revenues were \$100,557,444 for the year ended June 30, 2019. The majority of revenue is derived from business-like service programs.

The total cost of all programs and services was \$105,366,183. Sourcewell's expenses are predominantly related to providing necessary services to members.

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

Total expenses surpassed revenues, decreasing net position \$4,394,226.

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 \$2,831,579. Revenues for Sourcewell's governmental funds were \$4,182,183, while total expenses were \$29,355,296.

The financial position of Sourcewell's proprietary funds continues to remain strong. Cooperative purchasing agreements generated administrative fees of \$43,334,665 up from \$37,570,087 the previous fiscal year. 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)
	2019	2018		
Other local sources	\$ 3,247,941	\$ 1,628,749	\$ 1,619,192	99.4%
Federal sources	801,837	763,951	37,886	5.0%
State sources	132,405	-	132,405	N/A
Total General Fund revenues	\$ 4,182,183	\$ 2,392,700	\$ 1,789,483	74.8%

Total General Fund Revenue increased by \$1,789,483 or 74.8% 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. The increase in General Fund revenues was due to revenues of approximately \$132,000 related to a pension state aid entry required by MDE, increases in investment earnings of approximately \$542,000, an increase in various services provided of approximately \$609,000, and miscellaneous local grants of approximately \$640,000.

The following schedule presents a summary of General Fund Expenditures:

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
Administration	\$ 512,935	\$ 1,461,867	\$ (948,932)	-64.9%
District support services	27,556,755	15,801,617	11,755,138	74.4%
Regular instruction	56,619	78,013	(21,394)	-27.4%
Admin support and shared services	3,582,630	-	3,582,630	N/A
Instructional Support Services	4,581,675	2,815,901	1,765,774	62.7%
Special education instruction	762,291	721,845	40,446	5.6%
Pupil support services	828,527	834,116	(5,589)	-0.7%
Sites and buildings	1,027,557	1,787,629	(760,072)	-42.5%
Fiscal and other fixed cost programs	100,873	112,782	(11,909)	-10.6%
Indirect expenditures charged to business-type activities	<u>(9,800,366)</u>	<u>(12,782,940)</u>	<u>2,982,574</u>	23.3%
Total General Fund expenditures	<u>\$ 29,209,496</u>	<u>\$ 10,830,830</u>	<u>\$ 18,378,666</u>	169.7%

Total General Fund expenditures increased by \$18,378,666 or 169.7% from the previous year and is due primarily to growth in overall members, an increase in marketing expenses of \$1.4 million, and innovation program funding providing grants to local government units for construction projects for over \$13 million.

General Fund Budgetary Highlights

Sourcewell adopted its original and final budget in June by state of Minnesota statute.

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

- Actual revenues were \$943,356 more than expected due to budgeting conservatively for interest earnings, with a significant loss in the prior year and realizing approximately \$425,000 more than budgeted in the current year. There was also a miscellaneous funding amount of \$630,000 from two non-profit organizations.
- The actual expenditures were \$1,973,978 less than budget primarily due to budgeting uncertainty related to innovation funding construction projects and anticipating higher member utilization of special education purchased services.

Major Proprietary Fund Highlights

Expenditures exceeded revenues in Risk Management by \$751,426 and revenues exceeded expenditures before transfers in Cooperative Purchasing by \$28,330,611. 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. Expenditures exceeded revenues before transfers in Sourcewell Technology by \$8,803,790 due to indirect costs of \$1.4 million allocated from the General Fund and various expenditures related to a reorganization agreement entered into in the current year.

Capital Assets

By the end of 2019, Sourcewell had net investments of \$13,095,142 in capital assets consisting of land, buildings, land improvements, and equipment. Total depreciation expense for the year was \$2,208,028. More detailed information about Sourcewell's capital assets is presented in Note 4 in the financial statements.

Long-Term Liabilities

At June 30, 2019, Sourcewell had \$969,160 in compensated absences and \$146,734 in capital lease payable. Also at year end, Sourcewell has \$13,342,808 in net pension liability and \$348,025 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.

Sourcewell
Staples, Minnesota
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 3,138,640	\$ 50,209,131	\$ 53,347,771
Restricted cash	-	814,338	814,338
Receivables			
Accounts	24,768	13,404,072	13,428,840
Less allowance for doubtful accounts	-	(20,000)	(20,000)
Due from other governmental units	572,088	355,890	927,978
Prepaid items	660,925	840,700	1,501,625
Capital assets, net of accumulated depreciation where applicable			
Land	316,818	-	316,818
Buildings	8,838,458	666,974	9,505,432
Land improvements	254,199	-	254,199
Equipment	2,372,814	645,879	3,018,693
Total assets	<u>16,178,710</u>	<u>66,916,984</u>	<u>83,095,694</u>
Deferred Outflows of Resources			
Other post-employment benefits	34,093	16,161	50,254
Pension plans	4,794,070	3,319,156	8,113,226
Total deferred outflows of resources	<u>4,828,163</u>	<u>3,335,317</u>	<u>8,163,480</u>
Liabilities			
Accounts payable	591,361	2,667,383	3,258,744
Deferred rent payable	-	71,830	71,830
Due to other governmental units	-	794,507	794,507
Unearned revenue	-	106,487	106,487
Accrued payroll	973,481	435,159	1,408,640
Health claims payable	-	2,620,935	2,620,935
Long-term liabilities			
Due within one year:			
Compensated absences	601,018	368,142	969,160
Capital lease payable	-	146,734	146,734
Due in more than one year:			
Other post-employment benefits	206,739	141,286	348,025
Net pension liability	6,443,215	6,899,593	13,342,808
Total liabilities	<u>8,815,814</u>	<u>14,252,056</u>	<u>23,067,870</u>
Deferred Inflows of Resources			
Other post-employment benefits	11,377	3,587	14,964
Pension plans	3,176,778	5,975,009	9,151,787
Total deferred inflows of resources	<u>3,188,155</u>	<u>5,978,596</u>	<u>9,166,751</u>
Net Position			
Net investment in capital assets	11,782,289	1,166,119	12,948,408
Restricted	-	972,266	972,266
Unrestricted	(2,779,385)	47,883,264	45,103,879
Total net position	<u>\$ 9,002,904</u>	<u>\$ 50,021,649</u>	<u>\$ 59,024,553</u>

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

Sourcewell
Staples, Minnesota
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
Administration	\$ 1,410,646	\$ 17,298	\$ -	\$ (1,393,348)	\$ -	\$ (1,393,348)
District support services	15,306,571	447,033	-	(14,859,538)	-	(14,859,538)
Instructional support services	7,133,155	-	-	(7,133,155)	-	(7,133,155)
Regular instruction	56,619	27,529	-	(29,090)	-	(29,090)
Admin support and shared services	3,781,452	-	-	(3,781,452)	-	(3,781,452)
Special education instruction	777,166	186,351	615,486	24,671	-	24,671
Pupil support services	1,557,067	827,664	-	(729,403)	-	(729,403)
Sites and buildings	799,952	853	-	(799,099)	-	(799,099)
Fiscal and other fixed cost programs	100,873	-	-	(100,873)	-	(100,873)
Total governmental activities	30,923,501	1,506,728	615,486	(28,801,287)	-	(28,801,287)
Business-type activities						
Risk management	39,530,760	38,433,460	-	-	(1,097,300)	(1,097,300)
Cooperative purchasing	17,031,787	43,334,665	-	-	26,302,878	26,302,878
Sourcewell Technology	17,880,135	11,274,346	-	-	(6,605,789)	(6,605,789)
Total business-type activities	74,442,682	93,042,471	-	-	18,599,789	18,599,789
Total	\$ 105,366,183	\$ 94,549,199	\$ 615,486	(28,801,287)	18,599,789	(10,201,498)
General Revenues (Expenses) and Transfers						
Aids and payments from state				132,408	895,327	1,027,735
Unrestricted investment earnings				556,745	2,437,460	2,994,205
Capital lease interest expense				-	(120,361)	(120,361)
Miscellaneous				1,370,819	-	1,370,819
Loss on sale of capital assets				-	(3,036,820)	(3,036,820)
Transfers in (out)				15,163,088	(15,163,088)	-
Total general revenues and transfers				17,223,060	(14,987,482)	2,235,578
Change in Net Position Before Special Items				(11,578,227)	3,612,307	(7,965,920)
Special Items						
Member withdrawal fees				-	5,049,472	5,049,472
Member support fees				-	606,070	606,070
Reorganization payments to members				-	(2,083,848)	(2,083,848)
Total special items				-	3,571,694	3,571,694
Change in Net Position After Special Items				(11,578,227)	7,184,001	(4,394,226)
Net position - beginning, after restatement for transfer of operations (Note 10)				20,581,131	42,837,648	63,418,779
Net position - ending				\$ 9,002,904	\$ 50,021,649	\$ 59,024,553

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

Sourcewell
 Staples, Minnesota
 Governmental Funds
 Balance Sheet
 June 30, 2019

	General Fund
Assets	
Cash and investments	\$ 3,138,640
Receivables	
Accounts	24,768
Due from other governmental units	572,088
Prepaid items	660,925
Total assets	\$ 4,396,421
Liabilities	
Accounts payable	\$ 591,361
Salaries payable	973,481
Total liabilities	1,564,842
Fund balance	
Nonspendable for prepaid items	660,925
Unassigned	2,170,654
Total fund balance	2,831,579
Total liabilities and fund balance	\$ 4,396,421

Sourcewell
 Staples, Minnesota
 Governmental Funds
 Reconciliation of Balance Sheet to the Statement of Net Position
 June 30, 2019

Total Fund Balance - Governmental Funds	\$ 2,831,579
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.	11,782,289
Deferred outflows and inflows of resources related to pension are applicable to future periods and, therefore, are not reported in the funds	1,617,292
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds	22,716
Total OPEB obligation liabilities are not recognized in the funds.	(206,739)
Long-term liabilities, including compensated absences and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(7,044,233)</u>
Total Net Position - Governmental Activities	<u><u>\$ 9,002,904</u></u>

Sourcewell
Staples, Minnesota
Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2019

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues			
Other local and county revenues	\$ 3,247,941	\$ -	\$ 3,247,941
Revenue from federal sources	801,837	-	801,837
Revenue from state sources	132,405	-	132,405
	<u>4,182,183</u>	<u>-</u>	<u>4,182,183</u>
Expenditures			
Current			
Administration	512,935	-	512,935
District support services	27,556,755	-	27,556,755
Regular instruction	56,619	-	56,619
Admin support and shared services	3,582,630	-	3,582,630
Instructional support services	4,581,675	-	4,581,675
Special education instruction	762,291	-	762,291
Pupil support services	828,527	-	828,527
Sites and buildings	482,625	-	482,625
Fiscal and other fixed cost programs	100,873	-	100,873
Indirect expenditures charged to business-type activities	(9,800,366)	-	(9,800,366)
Capital outlay			
Equipment, sites and buildings	544,932	145,800	690,732
	<u>29,209,496</u>	<u>145,800</u>	<u>29,355,296</u>
Deficiency of Revenues Under Expenditures	(25,027,313)	(145,800)	(25,173,113)
Other Financing Sources (Uses)			
Transfers in	21,427,931	156,880	21,584,811
Transfers out	(6,410,643)	(11,080)	(6,421,723)
	<u>15,017,288</u>	<u>145,800</u>	<u>15,163,088</u>
Net Change in Fund Balance	(10,010,025)	-	(10,010,025)
Fund Balance, Beginning of Year	12,841,604	-	12,841,604
Fund Balance, End of Year	<u>\$ 2,831,579</u>	<u>\$ -</u>	<u>\$ 2,831,579</u>

Sourcewell
Staples, Minnesota
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities
Year Ended June 30, 2019

Net Change in Fund Balance - Governmental Funds	\$ (10,010,025)
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 depreciation expense exceeded capital outlay in the current period.	(754,173)
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.	(518,670)
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.	(40,577)
In the statement of activities 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.	<u>(254,782)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (11,578,227)</u></u>

Sourcewell
Staples, Minnesota
General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual
Year Ended June 30, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Other local and county revenues	\$ 2,187,609	\$ 3,247,941	\$ 1,060,332
Revenue from federal sources	1,051,218	801,837	(249,381)
Revenue from state sources	-	132,405	132,405
	<u>3,238,827</u>	<u>4,182,183</u>	<u>943,356</u>
Expenditures			
Current			
Administration	503,260	512,935	(9,675)
District support services	28,820,903	27,556,755	1,264,148
Regular instruction	131,623	56,619	75,004
Admin support and shared services	4,229,237	3,582,630	646,607
Instructional support services	5,126,403	4,581,675	544,728
Special education instruction	1,017,114	762,291	254,823
Pupil support services	866,932	828,527	38,405
Sites and buildings	656,910	482,625	174,285
Fiscal and other fixed cost programs	108,426	100,873	7,553
Indirect expenditures charged to business-type activities	(11,057,734)	(9,800,366)	(1,257,368)
Capital outlay			
Equipment	780,400	544,932	235,468
	<u>31,183,474</u>	<u>29,209,496</u>	<u>1,973,978</u>
Deficiency of Revenues Under Expenditures	<u>(27,944,647)</u>	<u>(25,027,313)</u>	<u>2,917,334</u>
Other Financing Sources (Uses)			
Transfers in	23,363,891	21,427,931	(1,935,960)
Transfers out	(100)	(6,410,643)	(6,410,543)
	<u>23,363,791</u>	<u>15,017,288</u>	<u>(8,346,503)</u>
Net Change in Fund Balance	<u>\$ (4,580,856)</u>	(10,010,025)	<u>\$ (5,429,169)</u>
Fund Balance, Beginning of Year		<u>12,841,604</u>	
Fund Balance, End of Year		<u>\$ 2,831,579</u>	

Sourcewell
Staples, Minnesota
Proprietary Funds
Statement of Net Position
June 30, 2019

	Risk Management	Cooperative Purchasing	Sourcewell Technology	Total Proprietary Funds
Assets				
Cash and investments	\$ 7,220,074	\$ 39,318,423	\$ 3,670,634	\$ 50,209,131
Restricted cash	-	814,338	-	814,338
Receivables				
Accounts	701,574	12,668,153	34,345	13,404,072
Less allowance for doubtful accounts	-	-	(20,000)	(20,000)
Due from other governmental units	55,170	-	300,720	355,890
Prepaid items	-	185,030	655,670	840,700
Capital assets, net of accumulated depreciation				
Building and building improvements	-	-	666,974	666,974
Equipment	-	-	645,879	645,879
Total assets	<u>7,976,818</u>	<u>52,985,944</u>	<u>5,954,222</u>	<u>66,916,984</u>
Deferred Outflows of Resources				
Other post-employment benefits	641	10,107	5,413	16,161
Pension plans	44,093	696,429	2,578,634	3,319,156
Total deferred outflows of resources	<u>44,734</u>	<u>706,536</u>	<u>2,584,047</u>	<u>3,335,317</u>
Liabilities				
Accounts payable	859,764	1,222,793	584,826	2,667,383
Deferred rent payable	-	-	71,830	71,830
Due to other governmental units	-	-	794,507	794,507
Unearned revenue	-	-	106,487	106,487
Accrued payroll	8,556	289,771	136,832	435,159
Health claims payable	2,620,935	-	-	2,620,935
Long-term liabilities				
Due within one year				
Compensated absences	9,368	166,986	191,788	368,142
Capital lease payable	-	-	146,734	146,734
Due in more than one year:				
Other post-employment benefits	3,888	61,291	76,107	141,286
Net pension liability	98,084	1,549,177	5,252,332	6,899,593
Total liabilities	<u>3,600,595</u>	<u>3,290,018</u>	<u>7,361,443</u>	<u>14,252,056</u>
Deferred Inflows of Resources				
Other post-employment benefits	214	3,373	-	3,587
Pension plans	31,812	477,186	5,466,011	5,975,009
Total deferred inflows of resources	<u>32,026</u>	<u>480,559</u>	<u>5,466,011</u>	<u>5,978,596</u>
Net Position (Deficit)				
Net investment in capital assets	-	-	1,166,119	1,166,119
Restricted for rebates due to cooperative purchasing members	-	814,338	-	814,338
Restricted for partially self-insured program	157,928	-	-	157,928
Unrestricted	4,231,003	49,107,565	(5,455,304)	47,883,264
Total net position (deficit)	<u>\$ 4,388,931</u>	<u>\$ 49,921,903</u>	<u>\$ (4,289,185)</u>	<u>\$ 50,021,649</u>

Sourcewell
Staples, Minnesota
Proprietary Funds

Statement of Revenues, Expenditures, and Changes in Net Position
Year Ended June 30, 2019

	Risk Management	Cooperative Purchasing	Sourcewell Technology	Total Proprietary Funds
Operating Revenues				
Sales	\$ -	\$ -	\$ 1,173,574	\$ 1,173,574
Cost of sales	-	-	1,020,031	1,020,031
Gross profit	-	-	153,543	153,543
Charges for Services and State Aid				
Software, license, and support fees	-	-	5,986,066	5,986,066
Local district lease levy	-	-	589,609	589,609
Service fees	-	-	348,115	348,115
Internet fees	-	-	2,166,929	2,166,929
Conference fees	-	-	651,174	651,174
State aid revenue	-	-	895,327	895,327
Contributions from participants	37,418,721	-	-	37,418,721
Administrative fees	5,700	43,334,665	-	43,340,365
Drug rebates	1,009,039	-	-	1,009,039
Other operating revenues	-	-	358,879	358,879
Total charges for services and state aid	38,433,460	43,334,665	10,996,099	92,764,224
Total operating revenues	38,433,460	43,334,665	11,149,642	92,917,767
Operating Expenses				
Salaries and wages	194,750	3,124,911	6,064,668	9,384,329
Employee benefits	63,655	1,169,932	512,596	1,746,183
Purchased services	172,226	521,580	6,051,633	6,745,439
Supplies and materials	540	21,200	74,854	96,594
Travel	17,826	281,341	294,810	593,977
Indirect costs from governmental activities	160,100	8,229,623	1,410,643	9,800,366
Marketing	-	2,164,282	-	2,164,282
Insurance claims, premiums, and expenses	38,917,966	-	201,469	39,119,435
State aid passed to members	-	-	805,939	805,939
Depreciation	-	-	713,520	713,520
Other expenses	3,697	1,518,918	729,972	2,252,587
Total operating expenses	39,530,760	17,031,787	16,860,104	73,422,651
Operating Income (Loss)	(1,097,300)	26,302,878	(5,710,462)	19,495,116
Nonoperating Revenues (Expenses)				
Investment gain	345,874	2,027,733	63,853	2,437,460
Capital lease interest expense	-	-	(120,361)	(120,361)
Loss on sale of capital assets	-	-	(3,036,820)	(3,036,820)
Total nonoperating revenues (expenses)	345,874	2,027,733	(3,093,328)	(719,721)
Income (Loss) Before Special Items and Transfers	(751,426)	28,330,611	(8,803,790)	18,775,395
Special Items				
Member withdrawal fees	-	-	5,049,472	5,049,472
Member support fees	-	-	606,070	606,070
Reorganization payments to members	-	-	(2,083,848)	(2,083,848)
Total special items	-	-	3,571,694	3,571,694
Transfers In	-	11,080	6,410,643	6,421,723
Transfers Out	-	(21,584,811)	-	(21,584,811)
Change in Net Position	(751,426)	6,756,880	1,178,547	7,184,001
Net Position (Deficit), Beginning of Year, After Restatement for Transfer of Operations (Note 10)	5,140,357	43,165,023	(5,467,732)	42,837,648
Net Position (Deficit), End of Year	\$ 4,388,931	\$ 49,921,903	\$ (4,289,185)	\$ 50,021,649

Sourcewell
Staples, Minnesota
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2019

	Risk Management	Cooperative Purchasing	Sourcewell Technology	Total Proprietary Funds
Operating Activities				
Receipts from sales to customers	\$ 5,700	\$ 41,229,344	\$ 14,748,337	\$ 55,983,381
Receipts from state aid	-	-	895,327	895,327
Payments for interfund balances	-	-	(1,410,643)	(1,410,643)
Receipts from participants	37,630,632	-	-	37,630,632
Receipts from insurance company	1,009,039	-	-	1,009,039
Payments to suppliers for goods and services	(172,766)	(4,002,460)	(9,387,611)	(13,562,837)
Payments made to employees	(259,034)	(4,238,899)	(6,713,424)	(11,211,357)
State aid payments to members	-	-	(805,939)	(805,939)
Payments for insurance claims and administration	(38,357,588)	-	-	(38,357,588)
Payments for other operating expenses	(181,623)	(8,510,964)	35,610	(8,656,977)
Net cash (used for) from operating activities	<u>(325,640)</u>	<u>24,477,021</u>	<u>(2,638,343)</u>	<u>21,513,038</u>
Investing Activity				
Proceeds from sale of capital assets	-	-	4,422,496	4,422,496
Purchase of capital assets	-	-	(785,724)	(785,724)
Investment income	345,874	2,027,733	63,853	2,437,460
Net cash from investing activities	<u>345,874</u>	<u>2,027,733</u>	<u>3,700,625</u>	<u>6,074,232</u>
Noncapital Financing Activities				
Total other post-employment benefits liability and related deferred inflows and outflows of resources	(758)	(8,729)	1,964	(7,523)
Net pension liability and related deferred inflows and outflows of resources	(4,099)	(18,589)	(1,598,309)	(1,620,997)
Principal payments on line of credit	-	-	(2,218,757)	(2,218,757)
Member withdrawal fees	-	-	5,049,472	5,049,472
Member support fees	-	-	606,070	606,070
Reorganization payments to members	-	-	(2,083,848)	(2,083,848)
Transfer from other funds	-	11,080	6,410,643	6,421,723
Transfer to other funds	-	(21,584,811)	-	(21,584,811)
Net cash used for noncapital financing activities	<u>(4,857)</u>	<u>(21,601,049)</u>	<u>6,167,235</u>	<u>(15,438,671)</u>
Capital and Related Financing Activities				
Capital lease interest payments	-	-	(174,837)	(174,837)
Principal payments on capital leases payable	-	-	(807,538)	(807,538)
Principal payments on certificates of participation payable	-	-	(2,825,000)	(2,825,000)
Net cash (used for) from capital and related financing activities	<u>-</u>	<u>-</u>	<u>(3,807,375)</u>	<u>(3,807,375)</u>
Net Change in Cash and Investments and Restricted Cash	15,377	4,903,705	3,422,142	8,341,224
Cash and Investments and restricted cash, July 1	7,204,697	35,229,056	248,492	42,682,245
Cash and Investments and restricted cash, June 30	<u>\$ 7,220,074</u>	<u>\$ 40,132,761</u>	<u>\$ 3,670,634</u>	<u>\$ 51,023,469</u>
Reconciliation of Operating (Loss) Income to Net Cash (used for) from Operating Activities				
Operating (loss) income	\$ (1,097,300)	\$ 26,302,878	\$ (5,710,464)	\$ 19,495,114
Adjustments to reconcile operating (loss) income to net cash (used for) from operating activities				
Depreciation	-	-	713,520	713,520
Changes in assets and liabilities				
Accounts receivable	(357,167)	(2,105,321)	254,071	(2,208,417)
Due from other governmental units	569,078	-	5,247,148	5,816,226
Prepaid items	1,746	(81,391)	(51,960)	(131,605)
Accounts payable	437,697	304,911	(2,643,912)	(1,901,304)
Deferred rent payable	-	-	71,830	71,830
Accrued payroll	(629)	38,870	(8,659)	29,582
Due to other governmental units	-	-	(395,250)	(395,250)
Health claims payable	120,935	-	-	120,935
Unearned revenue	-	-	12,834	12,834
Compensated absences	-	17,074	(127,501)	(110,427)
Net cash (used for) from operating activities	<u>\$ (325,640)</u>	<u>\$ 24,477,021</u>	<u>\$ (2,638,343)</u>	<u>\$ 21,513,038</u>

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

Note 1 - Summary of Significant Accounting Policies

A. Organization

Sourcewell, 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), software and networking solutions, 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.

During the year ended June 30, 2019, Sourcewell entered into a joint powers agreement that met all the necessary conditions to be considered a transfer of operations business combination. The transfer of operations resulted in a new blended component unit called Sourcewell Technology. See disclosure and additional information in Note 10.

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:

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.

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.

Sourcewell Technology – This fund is a new blended component unit in 2019 and used primarily to account for the revenues and expenses generated by providing networking and software solutions to governmental units.

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.

Restricted cash in the Cooperative Purchasing fund results from rebates from vendors passed through Sourcewell and due to customers purchasing goods through Sourcewell’s Cooperative Purchasing program.

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 and Sourcewell Technology 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.

Lease Accounting

Rent expense on operating leases of buildings and equipment is charged on a straight-line basis over the term of the related lease agreement, with the difference between the amount charged to operations and actual lease payments made accounted for as deferred rent payable.

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, 2019.

Long-Term Liabilities

In the government-wide financial statements, long-term debt or other long-term liabilities are reported as liabilities in the applicable governmental and business-type activities.

In the fund financial statements, governmental fund types recognize principal payments on long-term debt. The face amount of the long-term debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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, 2019, a liability has been recorded in the financial statements related to these compensated absences.

Unable to Work Pay – Substantially all Sourcewell 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 2019.

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 represent 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, 2019 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, 2019.

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, 2019, Sourcewell had the following cash and investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Not Applicable	< 1	1 - 5	> 5-10
Cash and Cash Equivalents					
Deposits	\$ 5,959,742	\$ 5,959,742	\$ -	\$ -	\$ -
Investments					
Money Market	3,067,723	3,067,723	-	-	-
U.S. Government Securities	28,865,196	-	10,947,716	7,587,738	10,329,742
Municipal Bonds	16,269,448	-	1,148,422	7,687,167	7,433,859
	<u>\$ 54,162,109</u>	<u>\$ 9,027,465</u>	<u>\$ 12,096,138</u>	<u>\$ 15,274,905</u>	<u>\$ 17,763,601</u>

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, 2019:

- U.S. Treasury securities of \$28,865,196 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, 2019, 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, 2019, include:

<u>Fund</u>	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
General	\$ 195,189	\$ 92,143	\$ 284,756	\$ 572,088
Risk Management	-	-	55,170	55,170
Sourcewell Technology	-	300,720	-	300,720
	<u>\$ 195,189</u>	<u>\$ 392,863</u>	<u>\$ 339,926</u>	<u>\$ 927,978</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 274,548	\$ 42,270	\$ -	\$ 316,818
Capital assets being depreciated				
Buildings	10,120,536	157,429	-	10,277,965
Land Improvements	323,973	-	-	323,973
Equipment	6,634,880	556,611	101,884	7,089,607
Total capital assets being depreciated	17,079,389	714,040	101,884	17,691,545
Less accumulated depreciation for				
Buildings	1,156,369	283,138	-	1,439,507
Land Improvements	48,176	21,598	-	69,774
Equipment	3,612,930	1,189,771	85,908	4,716,793
Total accumulated depreciation	4,817,475	1,494,507	85,908	6,226,074
Capital assets being depreciated, net	12,261,914	(780,467)	15,976	11,465,471
Governmental activities capital assets, net	<u>\$ 12,536,462</u>	<u>\$ (822,737)</u>	<u>\$ 15,976</u>	<u>\$ 11,782,289</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 1,025,928	\$ -	\$ 1,025,928	\$ -
Capital assets being depreciated				
Buildings and improvements	9,771,487	639,231	9,746,665	664,053
Equipment and software	5,446,316	146,493	3,515,184	2,077,625
Total capital assets being depreciated	15,217,803	785,724	13,261,849	2,741,678
Less accumulated depreciation for				
Buildings	3,107,452	299,721	3,373,520	33,653
Equipment and software	4,436,314	413,800	3,454,942	1,395,172
Total accumulated depreciation	7,543,766	713,521	6,828,462	1,428,825
Capital assets being depreciated, net	7,674,037	72,203	6,433,387	1,312,853
Business-type activities capital assets, net	<u>\$ 8,699,965</u>	<u>\$ 72,203</u>	<u>\$ 7,459,315</u>	<u>\$ 1,312,853</u>

Depreciation expense for the year ended June 30, 2019 was charged to the following functions/programs:

Governmental activities	
Sites and buildings	<u><u>\$ 1,494,507</u></u>
Business-type activities	
Sites and buildings	<u><u>\$ 713,521</u></u>

Business-type activities capital assets are attributable to Sourcewell Technology, the blended component unit that is part of the 2019 business combination disclosed in Note 10. The ending capital assets consist of building improvements, furniture and equipment, and software equipment and use depreciation methods and useful lives consistent with capital assets reported in governmental activities.

Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2019 are as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Governmental activities					
Compensated absences	\$ 346,236	\$ 519,354	\$ 264,572	\$ 601,018	\$ 601,018
Business-type activities					
Capital leases payable (direct borrowing)	\$ 954,272	\$ -	\$ 807,538	\$ 146,734	\$ 146,734
Compensated absences	481,557	716,052	829,467	368,142	368,142
Total business-type activities long term liabilities	<u>\$ 1,435,829</u>	<u>\$ 716,052</u>	<u>\$ 1,637,005</u>	<u>\$ 514,876</u>	<u>\$ 514,876</u>

Certain beginning balances of long-term liabilities extinguished in the current year and resulting from the Sourcewell Technology transfer of operations were excluded for comparability purposes. Payments related to these liabilities are located on the statement of cash flows.

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, Cooperative Purchasing Fund, and Sourcewell Technology Fund.

Capital Leases Payable – Sourcewell Technology entered into a \$604,800 lease with Marco for several copiers and printers. The 36 monthly payments will be made out of the Sourcewell Technology Fund and will occur through March 2020.

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, 2019. For comparative reasons the reconciliation of unpaid claims liabilities at June 30, 2018 is also presented.

	2019	2018
Health claims payable, beginning balance	\$ 2,500,000	\$ 2,500,000
Incurred claims		
Provision for insured events of current year	29,277,391	23,816,547
Increase in provision for insured events of prior years	1,964,979	521,649
Total incurred claims	31,242,370	24,338,196
Payments		
Claims attributable to insured events of current year	(28,838,965)	(22,069,158)
Claims attributable to insured events of prior years	(2,282,470)	(2,269,038)
Total payments	(31,121,435)	(24,338,196)
Health claims payable, ending balance	\$ 2,620,935	\$ 2,500,000

Note 7 - Interfund Transfers

Sourcewell had the following transfers during the year ended June 30, 2019:

Transfer In	Transfer Out			Total
	General	Capital Projects	Cooperative Purchasing	
General	\$ -	\$ -	\$ 21,427,931	\$ 21,427,931
Capital Projects	-	-	156,880	156,880
Sourcewell Technology	6,410,643	-	-	6,410,643
Cooperative Purchasing	-	11,080	-	11,080
	\$ 6,410,643	\$ 11,080	\$ 21,584,811	\$ 28,006,534

During the year ended June 30, 2019, \$21,427,931 was transferred from the Cooperative Purchasing Fund to the General Fund and \$156,880 was transferred from the Cooperative Purchasing Fund to the Capital Projects Fund. The transfers were made to fund various departments in the General Fund. Transfers between the Cooperative Purchasing Fund and Capital Projects Fund were to close the Capital Projects fund balance to zero. The Capital Projects Fund was previously used for building projects throughout the year. \$6,410,643 was transferred from the General Fund to the Sourcewell Technology Fund for general support.

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:

PERA and TRA Summary Schedules

Sourcewell and the blended component unit, Sourcewell Technology, have unique employer unit numbers for the PERA and TRA pension plans, thereby requiring note disclosures by entity. The following are schedules to assist in tying the entity note disclosures to the fund and activities financial statements.

Net pension liability and related deferred inflows and outflows by activities type:

	Governmental Activities	Business-Type Activities			Total	Total
		Risk Management	Cooperative Purchasing	Sourcewell Technology		
Net pension liability	\$ 6,443,215	\$ 98,084	\$ 1,549,177	\$ 5,252,332	\$ 6,899,593	\$ 13,342,808
Deferred outflows of resources	4,794,070	44,093	696,429	2,578,634	3,319,156	8,113,226
Deferred inflows of resources	3,176,778	31,812	477,186	5,466,011	5,975,009	9,151,787

Net pension liability and related deferred inflows and outflows by entity:

	Sourcewell		Sourcewell Technology		Total
	PERA	TRA	PERA	TRA	
Net pension liability	\$ 6,873,464	\$ 1,217,012	\$ 4,643,333	\$ 608,999	\$ 13,342,808
Deferred outflows of resources	3,089,950	2,444,642	1,238,467	1,340,167	8,113,226
Deferred inflows of resources	1,590,619	2,095,157	3,411,116	2,054,895	9,151,787

Public Employees Retirement Association (PERA)

A. Plan Descriptions

Sourcewell and Sourcewell Technology participate 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 and Sourcewell Technology, 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. Benefits 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.

General Employees Plan 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. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years 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 increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. 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 30, 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 and Sourcewell Technology were required to contribute 7.5% for Coordinated Plan members. Sourcewell and Sourcewell Technology's contributions to the GERF for the year ended June 30, 2019, were \$648,641 and \$384,718, respectively. Sourcewell and Sourcewell Technology's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At June 30, 2019, Sourcewell and Sourcewell Technology reported liabilities of \$6,873,464 and \$4,643,333, respectively, for their proportionate share of the GERF's net pension liability. Sourcewell and Sourcewell Technology's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. 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 and Sourcewell Technology totaled \$225,525 and \$152,406, respectively. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell and Sourcewell Technology's proportion of the net pension liability was based on Sourcewell and Sourcewell Technology's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, Sourcewell's proportion was 0.1239%, which was an increase of 0.0239% from June 30, 2017. At June 30, 2018, Sourcewell Technology's proportion was 0.0837%, which was a decrease of 0.0376% from June 30, 2017.

For the year ended June 30, 2019, Sourcewell and Sourcewell Technology recognized pension expense of \$780,057 and (\$330,806), respectively, for their proportionate share of GERF's pension expense. In addition, Sourcewell and Sourcewell Technology recognized an additional \$52,592 and \$35,541, respectively, as pension expense (and grant revenue) for their proportionate share of the State of Minnesota's contribution of \$16 million to the GERF.

Sourcewell

At June 30, 2019, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 148,406	\$ 138,015
Changes in actuarial assumptions	452,035	661,335
Difference between projected and actual investment earnings	-	791,269
Change in proportion and differences between contributions made and employer's proportionate share of contributions	1,840,868	-
Employer's contributions to GERF subsequent to the measurement date	<u>648,641</u>	<u>-</u>
Total	<u>\$ 3,089,950</u>	<u>\$ 1,590,619</u>

\$648,641 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 805,815
2021	296,853
2022	(108,517)
2023	(143,461)
2024	-

Sourcewell Technology

At June 30, 2019, Sourcewell Technology 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 175,640	\$ 194,645
Changes in actuarial assumptions	637,512	682,153
Difference between projected and actual investment earnings	-	498,245
Change in proportion and differences between contributions made and employer's proportionate share of contributions	40,597	2,036,073
Employer's contributions to GERF subsequent to the measurement date	<u>384,718</u>	<u>-</u>
Total	<u>\$ 1,238,467</u>	<u>\$ 3,411,116</u>

\$384,718 reported as deferred outflows of resources related to pensions resulting from Sourcewell Technology 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ (502,388)
2021	(879,318)
2022	(1,078,747)
2023	(96,914)
2024	-

E. Actuarial Assumptions

The total pension liability for both entities in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF
Inflation	2.75% 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric 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	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
	<u>100%</u>	

F. Discount Rate

The discount rate used to measure the total pension liabilities in 2018 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.

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:

Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	6.50%	\$ 11,170,259
Current Discount Rate	7.50%	\$ 6,873,464
1% Higher	8.50%	\$ 3,326,582

The following presents Sourcewell Technology'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 Technology'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:

Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	6.50%	\$ 7,546,010
Current Discount Rate	7.50%	\$ 4,643,333
1% Higher	8.50%	\$ 2,247,255

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.

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

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

<u>Tier1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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, June 30, 2018 and June 30, 2019, were:

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employees	Employers	Employees	Employers	Employees	Employers
Basic	11.00%	11.50%	11.00%	11.50%	11.00%	11.50%
Coordinated	7.50%	7.50%	7.50%	7.50%	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	\$ 378,728,000
Add employer contributions not related to future contribution efforts	522,000
Deduct TRA's contributions not included in allocation	<u>(471,000)</u>
Total employer contributions	378,779,000
Total non-employer contributions	<u>35,588,000</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 414,367,000</u></u>

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, 2018, 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, 2018
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
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	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

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	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
	<u>100%</u>	

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 2017 valuation

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

At June 30, 2019, Sourcewell and Sourcewell Technology reported liabilities of \$1,217,012 and \$608,999, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell and Sourcewell Technology's proportions of the net pension liability were based on their 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 0.0194% at the end of the measurement period and 0.0139% for the beginning of the year. Sourcewell Technology's proportionate share was 0.0097% at the end of the measurement period and 0.0116% for the beginning of the year.

Sourcewell

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	<u><u>\$ 1,217,012</u></u>
State's proportionate share of the net pension liability associated with the employer	<u><u>\$ 114,359</u></u>

For the year ended June 30, 2019, Sourcewell recognized pension expense of (\$649,434). It also recognized \$79,815 as an increase to pension expense for the support provided by direct aid.

At June 30, 2019, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 206	\$ 18,388
Changes in actuarial assumptions	834,097	1,952,649
Difference between projected and actual investment earnings	-	124,120
Change in proportion and differences between contributions made and employer's proportionate share of contributions	1,517,898	-
Employer's contributions to TRA subsequent to the measurement date	<u>92,441</u>	<u>-</u>
Total	<u>\$ 2,444,642</u>	<u>\$ 2,095,157</u>

\$92,441 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, 2020.

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

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 197,520
2021	178,777
2022	134,524
2023	(107,857)
2024	(145,920)

Sourcewell Technology

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by Sourcewell Technology 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 Technology were as follows:

Employer's proportionate share of net pension liability	<u>\$ 608,999</u>
State's proportionate share of the net pension liability associated with the employer	<u>\$ 57,180</u>

For the year ended June 30, 2019, Sourcewell Technology recognized pension expense of (\$479,758). It also recognized \$39,908 as an increase to pension expense for the support provided by direct aid.

At June 30, 2019, Sourcewell Technology 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 303	\$ 14,432
Changes in actuarial assumptions	1,254,592	1,081,013
Difference between projected and actual investment earnings	-	18,183
Change in proportion and differences between contributions made and employer's proportionate share of contributions	43,302	941,267
Employer's contributions to TRA subsequent to the measurement date	<u>41,970</u>	<u>-</u>
Total	<u>\$ 1,340,167</u>	<u>\$ 2,054,895</u>

\$41,970 was reported as deferred outflows of resources related to pensions resulting from Sourcewell Technology 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, 2020.

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

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 13,924
2021	(10,786)
2022	(69,361)
2023	(462,678)
2024	(227,797)

G. Pension Liability Sensitivity

Sourcewell

The following presents Sourcewell's proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the liability measured using one percent lower and one percent higher:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 1,931,394	\$ 1,217,012	\$ 627,652

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.

Sourcewell Technology

The following presents Sourcewell Technology's proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the liability measured using one percent lower and one percent higher:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 966,479	\$ 608,999	\$ 314,080

Sourcewell Technology'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

OPEB Summary Schedules

Sourcewell and the blended component unit, Sourcewell Technology, have separate other post-employment benefit actuarial valuations performed due to having unique employer identification numbers, thereby requiring note disclosures by entity. The following are schedules to assist in tying the entity note disclosures to the fund and activities financial statements.

Net pension liability and related deferred inflows and outflows by activities type:

	Governmental Activities	Business-Type Activities			Total	Total
		Risk Management	Cooperative Purchasing	Sourcewell Technology		
Other post-employment benefits liability	\$ 206,739	\$ 3,888	\$ 61,291	\$ 76,107	\$ 141,286	\$ 348,025
Deferred outflows of resources	34,093	641	10,107	5,413	16,161	50,254
Deferred inflows of resources	11,377	214	3,373	-	3,587	14,964

Net pension liability and related deferred inflows and outflows by entity:

	Sourcewell	Sourcewell Technology	Total
Other post-employment benefits liability	\$ 271,918	\$ 76,107	\$ 348,025
Deferred outflows of resources	44,841	5,413	50,254
Deferred inflows of resources	14,964	-	14,964

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 \$735 for single and \$1,694 for family coverage for Sourcewell and \$537 for single and \$1,459 for family coverage for Sourcewell Technology. The implicit rate subsidy is only until Medicare eligibility. The Sourcewell senior leadership team employees who have reached age 55 with at least 5 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 for Sourcewell or Sourcewell Technology.

C. Employees Covered by Benefit Terms

Sourcewell

At the valuation date of July 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>141</u>
	<u><u>144</u></u>

Sourcewell Technology

At the valuation date of July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>69</u>
	<u><u>70</u></u>

D. Total OPEB Liability

Sourcewell and Sourcewell Technology's total OPEB liabilities of \$348,025 and \$76,107, respectively, were measured as of July 1, 2018 and was determined by an actuarial valuation as of July 1, 2018 and July 1, 2017, respectively.

F. Actuarial Assumptions

Sourcewell

The total OPEB liability in the July 1, 2018 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	3.50 percent	
Healthcare cost trend rates	6.50 percent as of July 1, 2018 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:	25%

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-2017.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study as of July 1, 2018.

Sourcewell Technology

The total OPEB liability in the July 1, 2017 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:	N/A
	Pre-65 subsidy not available:	30%
Percent of married retirees electing spouse coverage	Percent future retirees electing pre-65 coverage:	
	Spouse subsidy available:	N/A
	Spouse subsidy not available:	10%

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) with MP-2016 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study as of July 1, 2017.

G. Changes in the Total OPEB Liability

Sourcewell

Balance at June 30, 2018	\$	214,716
Changes from the Prior Year:		
Service cost		53,450
Interest cost		8,845
Assumption changes		7,450
Plan changes		16,963
Differences between expected and actual experience		(13,309)
Benefit payments		<u>(16,197)</u>
Net Change		<u>57,202</u>
Balance at June 30, 2019	\$	<u><u>271,918</u></u>

Sourcewell Technology

Balance at June 30, 2018	\$	68,730
Changes from the Prior Year:		
Service cost		8,812
Interest cost		2,569
Benefit payments		<u>(4,004)</u>
Net Change		<u>7,377</u>
Balance at June 30, 2019	\$	<u><u>76,107</u></u>

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

Sourcewell

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:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	2.50%	3.50%	4.50%
Total OPEB Liability	\$ 289,727	\$ 271,918	\$ 255,126

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:

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Medical trend rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
Total OPEB Liability	\$ 244,950	\$ 271,918	\$ 303,674

Sourcewell Technology

The following presents the total OPEB liability of Sourcewell Technology, as well as what Sourcewell Technology'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:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	2.40%	3.40%	4.40%
Total OPEB Liability	\$ 79,537	\$ 76,107	\$ 72,813

The following presents the total OPEB liability of Sourcewell Technology, as well as what Sourcewell Technology'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:

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Medical trend rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
Total OPEB Liability	\$ 70,493	\$ 76,107	\$ 82,489

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

Sourcewell

For the year ended June 30, 2019, Sourcewell recognized OPEB expense of \$77,506. At June 30, 2019, Sourcewell reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Assumption changes	\$ 6,208	\$ 3,874
Liability gains	-	11,090
Employer contributions made after the measurement date	38,633	-
	<u>\$ 44,841</u>	<u>\$ 14,964</u>

\$38,633 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, 2020.

\$6,208 reported as deferred outflows of resources and \$3,874 as deferred inflows of resources related to OPEB resulting from changes in assumptions and \$11,090 reported as deferred inflows of resources related to liability gains will be recognized in OPEB expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ (1,752)
2021	(1,752)
2022	(1,752)
2023	(1,752)
2024	(1,748)
Thereafter	-

Sourcewell Technology

For the year ended June 30, 2019, Sourcewell Technology recognized OPEB expense of \$11,044. At June 30, 2019, Sourcewell Technology 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	\$ 5,413	\$ -

\$5,413 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.

Note 10 - Transfer of Operations Business Combination

On July 1, 2018, Sourcewell entered into a joint powers agreement transferring the operational assets of Sourcewell Technology (formerly TIES) to Sourcewell. Under the joint powers agreement, Sourcewell Technology will continue to operate as a legally separate entity, but as a blended component unit of Sourcewell for reporting purposes, resulting in a decrease in beginning business-type activities net position from \$48,305,380 per the June 30, 2018 audited financial statements, to \$42,837,648, due to a Sourcewell Technology net deficit of (\$5,467,732) as of June 30, 2018.

The primary purposes of the joint powers agreement and resulting business combination was due to Soucewell Technology’s financial difficulties and the goal of minimizing the negative financial impact to members while also minimizing the disruption of essential services to those members.

As of the transfer of operations date of July 1, 2018, Sourcewell Technology's financial statements carried the following amounts that were transferred to Sourcewell:

Assets	
Current	\$ 6,668,445
Restricted	41
Capital	<u>8,699,965</u>
Total assets	<u>15,368,451</u>
Deferred Outflows of Resources	<u>3,797,342</u>
Liabilities	
Current	8,584,701
Long-term	<u>12,572,746</u>
Total liabilities	<u>21,157,447</u>
Deferred Outflows of Resources	<u>3,476,078</u>
Net Position (Deficit)	
Net investment in capital assets	4,920,693
Restricted for lease	41
Unrestricted	<u>(10,388,466)</u>
Total Net Deficit	<u><u>\$ (5,467,732)</u></u>

No significant adjustments were required to bring Sourcewell Technology's June 30, 2018 financial statements into conformity with GAAP and Sourcewell's accounting policies.

Note 11 - Special Items

The Sourcewell Technology Fund incurred three special items as a result of a reorganization agreement entered into with Sourcewell. Under the agreement, a building that originally housed Sourcewell Technology's operations was sold, with proceeds in excess of the outstanding balance on the related capital lease to be paid out to members of the organization in the amount of \$2,083,848. Member support fees of \$606,070 were charged to cover operating deficits incurred by Sourcewell Technology during the transfer of operations to Sourcewell. Lastly, member withdrawal fees were charged to each of the prior 45 member districts based on the number of students at the district, for a total of \$5,049,472 in fees.

Note 12 - Joint Powers Agreement

Effective July 1, 2018, Sourcewell entered into a Joint Powers Agreement (“the Agreement”) with Metro ECSU for the purpose of ensuring Sourcewell Technology’s continuity and development of informational and technological products, services, programs, solutions, and support, with a primary emphasis on the K-12 sector. Sourcewell and Metro ECSU are assigned as governing members of Sourcewell Technology, with member districts of Sourcewell Technology being limited members of the Joint Powers. As a result of the powers assigned to Sourcewell in the Agreement, Sourcewell Technology is required to be reported as a blended component unit. The agreement is effective indefinitely until governing members choose to withdraw, or the Joint Board approves a termination or dissolution.

Note 13 - Related Party Transactions

Sourcewell and Metro ECSU are governing members of a Joint Powers Board governing over Sourcewell Technology, a blended component unit of Sourcewell. Metro ECSU is an educational service cooperative in Arden Hills, Minnesota, that provides various educational services to Sourcewell. During the year ended June 30, 2019, Sourcewell made payments totaling \$113,297 to Metro ECSU, \$109,000 related to the joint powers and reorganization agreement disclosed in Note 12, and an additional \$4,297 for miscellaneous services.

Note 14 - Deficit Net Position

The Sourcewell Technology fund has a deficit net position of \$4,289,187. Management anticipates that the fund will become self-sustaining in the near future as a result of extinguishing \$5,851,295 of debt in 2019 and a focus on higher margin revenue streams. Operating deficits and long-standing deficit net position will be eliminated with higher margin revenue streams and, if needed, transfers from the General Fund.

Note 15 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by Sourcewell. The first statement issued but not yet implemented that will significantly affect Sourcewell 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 Sourcewell in the year ended June 30, 2020.

The second statement issued but not yet implemented that will significantly affect Sourcewell 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 Sourcewell in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect Sourcewell 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 Sourcewell in the year ended June 30, 2021.

The fourth statement issued but not yet implemented that will significantly affect Sourcewell 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 Sourcewell in the year ended June 30, 2021.

The final statement issued but not yet implemented that will significantly affect Sourcewell is Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required noted disclosures. The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognized assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. This statement will be implemented at Sourcewell in the year ended June 30, 2022.

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



Required Supplementary Information
June 30, 2019

Sourcewell

Staples, Minnesota

Sourcewell
Staples, Minnesota
Schedule of Changes in Sourcewell's Total OPEB Liability and Related Ratios
June 30, 2019

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

	<u>2019</u>	<u>2018</u>
Service cost	\$ 53,450	\$ 37,868
Interest cost	8,845	6,243
Assumption changes	7,450	(5,424)
Plan changes	16,963	-
Differences between expected and actual experience	(13,309)	-
Benefit payments	<u>(16,197)</u>	<u>(2,765)</u>
Net change in total OPEB liability	57,202	35,922
Total OPEB liability - beginning	<u>214,716</u>	<u>178,794</u>
Net OPEB liability, end of year	<u><u>\$ 271,918</u></u>	<u><u>\$ 214,716</u></u>
Covered-employee payroll	\$ 11,358,701	\$ 6,879,565
District's total OPEB liability as a percentage of covered-employee payroll	2.39%	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.

Schedule of Changes in Sourcewell Technology's Total OPEB Liability and Related Ratios
June 30, 2019

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

	2019	2018
Service cost	\$ 8,812	\$ 8,555
Interest cost	2,569	2,489
Benefit payments	(4,004)	(13,821)
Net change in total OPEB liability	7,377	(2,777)
Total OPEB liability - beginning	68,730	71,507
Net OPEB liability, end of year	\$ 76,107	\$ 68,730
Covered-employee payroll	\$ 6,249,847	\$ 6,067,813
District's total OPEB liability as a percentage of covered-employee payroll	1.22%	1.13%

*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 Technology will present information for those years for which information is available.

Notes to the Schedule of Changes in Sourcewell Technology'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.

Sourcewell
Staples, Minnesota
Claims Development Schedule
June 30, 2019

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.

	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19
1. Net earned required contribution and investment revenues	\$ 1,859,996	\$ 434,105	\$ (1,359,385)	\$ 1,690,357	\$ 1,591,039	\$ (526,270)	\$ 525,610	\$ (503,137)	\$ (1,231,893)	\$ (1,378,313)
2. Unallocated expenses	475,715	382,332	424,854	398,368	409,470	407,616	430,012	456,522	496,115	617,648
3. Estimated incurred claims, both paid and accrued, end of policy year	13,390,250	16,098,719	22,810,670	21,636,861	44,500,559	27,787,033	27,951,506	25,257,099	29,277,391	34,306,088
4. Payments as of:										
End of policy year	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	33,203,766
One year later	13,743,244	17,265,498	23,284,339	22,146,866	44,053,472	26,714,911	28,192,765	24,345,943	31,123,597	
Two years later	13,772,140	17,277,454	23,219,855	21,137,123	44,039,282	26,685,401	28,178,420	24,350,824		
Three years later	13,109,824	17,209,208	21,412,512	21,135,428	44,038,972	26,684,254	28,171,377			
Four years later	13,101,547	17,277,455	21,412,446	21,135,389	44,046,716	26,684,254				
Five years later	13,109,822	14,533,886	21,412,434	21,135,389	44,046,716					
Six years later	13,121,638	14,533,886	21,412,434	21,135,389						
Seven years later	13,121,638	14,533,886	21,412,434							
Eight years later	13,121,638	14,533,886								
Nine years later	13,121,638									
Ten years later										

Schedules of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

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

Pension Plan	Measurement Date	Employer's Proportion 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	6/30/2018	0.1239%	\$ 6,873,464	\$ 225,525	\$ 7,098,989	\$ 8,332,030	82.5%	79.5%
PERA	6/30/2017	0.1000%	\$ 6,383,934	\$ 80,304	\$ 6,464,238	\$ 6,446,014	99.0%	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	6/30/2018	0.0194%	\$ 1,217,012	\$ 114,359	\$ 1,331,371	\$ 1,024,674	118.8%	78.1%
TRA	6/30/2017	0.0139%	\$ 1,217,012	\$ 114,359	\$ 1,331,371	\$ 737,900	164.9%	51.6%
TRA	6/30/2016	0.0103%	\$ 2,456,796	\$ 245,862	\$ 2,702,658	\$ 535,301	459.0%	44.9%
TRA	6/30/2015	0.0096%	\$ 593,855	\$ 72,994	\$ 666,849	\$ 492,907	120.5%	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	6/30/2019	\$ 648,641	\$ 648,641	\$ -	\$ 8,648,547	7.5%
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	6/30/2019	\$ 92,441	\$ 92,441	\$ -	\$ 1,200,532	7.7%
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.

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

Pension Plan	Measurement Date	Employer's Proportion 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	6/30/2018	0.0837%	\$ 4,643,333	\$ 152,406	\$ 4,795,739	\$ 5,629,627	82.5%	79.5%
PERA	6/30/2017	0.1213%	\$ 7,743,712	\$ 97,367	\$ 7,841,079	\$ 7,826,989	98.9%	75.9%
PERA	6/30/2016	0.1203%	\$ 9,767,764	\$ 127,601	\$ 9,895,365	\$ 7,476,317	130.6%	68.9%
PERA	6/30/2015	0.1385%	\$ 7,177,790	N/A	\$ 7,177,790	\$ 8,004,987	89.7%	78.2%
PERA	6/30/2014	0.1562%	\$ 7,337,493	N/A	\$ 7,337,493	\$ 8,197,704	89.5%	78.8%
TRA	6/30/2018	0.0097%	\$ 608,999	\$ 57,180	\$ 666,179	\$ 535,707	113.7%	78.1%
TRA	6/30/2017	0.0116%	\$ 2,315,570	\$ 223,463	\$ 2,539,033	\$ 622,307	372.1%	51.6%
TRA	6/30/2016	0.0155%	\$ 3,697,120	\$ 372,056	\$ 4,069,176	\$ 804,507	459.6%	44.9%
TRA	6/30/2015	0.0141%	\$ 872,224	\$ 106,787	\$ 979,011	\$ 715,933	121.8%	76.8%
TRA	6/30/2014	0.0150%	\$ 691,189	\$ 48,760	\$ 739,949	\$ 685,937	100.8%	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 Technology 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	6/30/2019	\$ 384,718	\$ 384,718	\$ -	\$ 5,129,573	7.5%
PERA	6/30/2018	\$ 422,222	\$ 422,222	\$ -	\$ 5,629,627	7.5%
PERA	6/30/2017	\$ 586,059	\$ 586,059	\$ -	\$ 7,814,120	7.5%
PERA	6/30/2016	\$ 560,778	\$ 560,778	\$ -	\$ 7,477,040	7.5%
PERA	6/30/2015	\$ 600,374	\$ 600,374	\$ -	\$ 8,004,987	7.5%
TRA	6/30/2019	\$ 41,970	\$ 41,970	\$ -	\$ 545,065	7.7%
TRA	6/30/2018	\$ 40,178	\$ 40,178	\$ -	\$ 535,707	7.5%
TRA	6/30/2017	\$ 46,673	\$ 46,673	\$ -	\$ 622,307	7.5%
TRA	6/30/2016	\$ 60,338	\$ 60,338	\$ -	\$ 804,507	7.5%
TRA	6/30/2015	\$ 53,695	\$ 53,695	\$ -	\$ 715,933	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 Technology 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, 2019

Sourcewell

Staples, Minnesota

Sourcewell
Staples, Minnesota
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Title	Pass Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Education			
<i>Passed through Minnesota Department of Education:</i>			
Special Education Cluster (IDEA)			
Special Education Grants to States - Regional Low Incidence	0924-83-000 Formula - 421	84.027	\$ 498,265
Special Education Grants to States - CSPD	0924-83-000 Formula - 432	84.027	117,221
Special Education Grants to States - Centers of Excellence CSPD	0924-83-000 Formula - 430	84.173	<u>92,854</u>
Total Special Education Cluster (IDEA)			<u>708,340</u>
 <i>Passed through Minnesota Department of Education:</i>			
Special Education Grants to States - Centers of Excellence CSPD	0924-83-000 Formula - 446	84.181	<u>50,293</u>
Total Expenditures of Federal Awards			<u><u>\$ 758,633</u></u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal funding activity of Sourcewell under programs of the federal government for the year ended June 30, 2019 and is presented on the modified accrual basis of accounting. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Sourcewell, it is not intended to and does not present the financial position, changes in net position, or cash flows of Sourcewell.

Note 2 - Summary of Significant Accounting Policies

Governmental fund types account for Sourcewell's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are reported on the modified accrual basis – when they become a demand on current available financial resources. No federal financial assistance has been provided to a subrecipient. Sourcewell's summary of significant accounting policies is presented in Note 1 in the organization's basic financial statements.

Note 3 - Indirect Cost Rate

The Organization has not elected to use the 10% de minimis cost rate.

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District: REGION 5 - ECSU-5 (924-83) [Back](#) [Print](#)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$49,544,581	<u>\$49,544,580</u>	\$1	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$52,679,244	<u>\$52,679,243</u>	\$1	Total Expenditures	\$145,800	<u>\$145,800</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$660,925	<u>\$660,925</u>	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.06 Health and Safety	\$0	\$0	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0				
4.24 Operating Capital	\$0	\$0	\$0	07 DEBT SERVICE			
4.26 \$25 Taconite	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.28 Learning & Development	\$0	\$0	\$0	<i>Non Spendable:</i>			
4.34 Area Learning Center	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	4.33 Maximum Effort Loan Aid	\$0	\$0	\$0
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.41 Basic Skills Programs	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.48 Achievement and Integration	\$0	\$0	\$0	<i>Restricted:</i>			
4.49 Safe School Crime - Crime Levy	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	<i>Unassigned:</i>			
4.51 QZAB Payments	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement	\$0	\$0	\$0	08 TRUST			
4.59 Basic Skills Extended Time	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.67 LTFM	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.72 Medical Assistance	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$0	\$0	\$0	20 INTERNAL SERVICE			
4.75 Title VII Impact Aid	\$0	\$0	\$0	Total Revenue	\$38,779,334	<u>\$38,779,335</u>	(\$1)
4.76 Payments in Lieu of Taxes	\$0	\$0	\$0	Total Expenditures	\$39,535,617	<u>\$39,535,619</u>	(\$2)
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$4,478,195	<u>\$4,478,194</u>	\$1
4.18 Committed for Separation	\$0	\$0	\$0				
4.61 Committed Fund Balance	\$0	\$0	\$0	25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenue	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.22 Unassigned Fund Balance	\$53,477,048	<u>\$53,477,048</u>	\$0				
				45 OPEB IRREVOCABLE TRUST			
02 FOOD SERVICES				Total Revenue	\$0	\$0	\$0
Total Revenue	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	47 OPEB DEBT SERVICE			
<i>Restricted / Reserved:</i>				Total Revenue	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
<i>Restricted:</i>				<i>Non Spendable:</i>			
4.64 Restricted Fund Balance	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
<i>Unassigned:</i>				<i>Restricted:</i>			
4.63 Unassigned Fund Balance	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
				4.64 Restricted Fund Balance	\$0	\$0	\$0
04 COMMUNITY SERVICE				<i>Unassigned:</i>			
Total Revenue	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0				
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
<i>Restricted / Reserved:</i>							
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				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$0	\$0	\$0				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	\$0	\$0				

Fiscal Compliance Report - 6/30/2019 [Help](#) [Logoff](#)
 District: **SOURCEWELL TECHNOLOGY (925-82)** [Back](#) [Print](#)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$23,279,680	<u>\$23,279,681</u>	(\$1)	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$20,668,035	<u>\$20,668,032</u>	\$3	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	\$0	<u>\$0</u>	<u>\$0</u>	4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>				
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>	07 DEBT SERVICE			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	20 INTERNAL SERVICE			
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>				
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance	\$3,845,111	<u>\$3,845,113</u>	(\$2)				
				45 OPEB IRREVOCABLE TRUST			
02 FOOD SERVICES				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	47 OPEB DEBT SERVICE			
<i>Restricted / Reserved:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>				<i>Non Spendable:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				<i>Restricted:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
				4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
04 COMMUNITY SERVICE				<i>Unassigned:</i>			
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Restricted / Reserved:</i>							
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>				
4.31 Community Education	\$0	<u>\$0</u>	<u>\$0</u>				
4.32 E.C.F.E	\$0	<u>\$0</u>	<u>\$0</u>				
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>				
4.44 School Readiness	\$0	<u>\$0</u>	<u>\$0</u>				
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				

Sourcewell
Staples, Minnesota
Schedules of Differences between UFARS and GAAP
Year Ended June 30, 2019

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. The following tables illustrate the difference between the audited financial statements (GAAP) and UFARS.

The governmental General Fund and proprietary Cooperative Purchasing Fund are required to be reported jointly as the General Fund of the UFARS Fiscal Compliance Report, while the proprietary Risk Management Fund is required to be reported in the internal service fund.

Sourcewell Technology is a legally separate entity from Sourcewell and is required to submit to UFARS individually. The Schedule of Differences between UFARS and GAAP table for Sourcewell Technology is located on page 73.

Governmental General Fund and Proprietary Cooperative Purchasing Fund

	UFARS	GAAP		Difference
	General Fund	General Fund	Cooperative Purchasing	
Statement of Net Position:				
Deferred Outflows of Resources				
Other post-employment benefits	\$ -	\$ -	\$ 10,107	\$ 10,107
Pension Plans	-	-	696,429	696,429
Liabilities				
Long-term liabilities				
Due in more than one year:				
Other post-employment benefits	-	-	61,291	61,291
Net pension liability	-	-	1,549,177	1,549,177
Deferred Inflows of Resources				
Other post-employment benefits	-	-	3,373	3,373
Pension Plans	-	-	477,186	477,186
Fund Balance and Net Position				
GAAP unrestricted		2,170,654	49,107,565	
GAAP restricted		-	814,338	
UFARS Unrestricted	53,477,048	2,170,654	49,921,903	(1,384,491)
Nonspendable	660,925	660,925	-	-
Statement of Revenues, Expenditures, and Changes in Fund Balance and Net Position				
Operating Expenses				
Operations				
Revenues	49,544,581	4,182,183	45,362,398	-
Expenditures	52,679,244	35,620,139	17,031,787	(27,318)

*Differences in expenditures relate to pension expense and OPEB expense

Sourcewell
Staples, Minnesota
Schedules of Differences between UFARS and GAAP
Year Ended June 30, 2019

Proprietary Risk Management Fund

	<u>UFARS</u> <u>Internal</u> <u>Service</u>	<u>GAAP</u> <u>Risk</u> <u>Management</u>	<u>Difference</u>
Statement of Net Position:			
Deferred Outflows of Resources			
Other post-employment benefits	\$ -	\$ 641	\$ 641
Pension Plans	-	44,093	44,093
Liabilities			
Long-term liabilities			
Due in more than one year -			
Other post-employment benefits	-	3,888	3,888
Net pension liability	-	98,084	98,084
Deferred Inflows of Resources			
Other post-employment benefits	-	214	214
Pension Plans	-	31,812	31,812
Net Position			
GAAP Restricted		157,928	157,928
GAAP Unrestricted		4,231,003	4,231,003
UFARS Unrestricted	4,478,195	<u>4,388,931</u>	<u>(89,264)</u>
Statement of Revenues, Expenditures, and Changes in Net Position			
Operating Expenses			
Operations			
Revenues	38,779,334	38,779,334	-
Expenditures	39,535,617	39,530,760	(4,857)

*Differences in expenditures relate to pension expense and OPEB expense

Sourcewell
Staples, Minnesota
Schedules of Differences between UFARS and GAAP
Year Ended June 30, 2019

Proprietary Sourcewell Technology

	UFARS	GAAP	
	General Fund	Sourcewell Technology	Difference
Statement of Net Position:			
Deferred Outflows of Resources			
Other post-employment benefits	\$ -	\$ 5,413	\$ 5,413
Pension Plans	-	2,578,634	2,578,634
Liabilities			
Long-term liabilities			
Due in more than one year -			
Net pension liability	-	5,252,332	5,252,332
Deferred Inflows of Resources			
Pension Plans	-	5,466,011	5,466,011
Net Position			
Unrestricted	3,845,111	(4,289,185)	(8,134,296)
Statement of Revenues, Expenditures, and Changes in Net Position			
Operating Expenses			
Operations			
Transfers from Sourcewell		6,410,643	
Revenues		16,869,037	
Total revenues per UFARS	23,279,680	23,279,680	-
Expenditures*	20,668,035	19,064,313	(1,603,722)

*Differences in expenditures relate to pension expense and OPEB expense

Note: The Sourcewell Technology UFARS compliance table is separate from Sourcewell, due to being two legally separate entities.

Sourcewell
Staples, Minnesota
Sourcewell Technology Fund
Statement of Net Position
Year Ended June 30, 2019

	Sourcewell Technology Fund
Assets	
Cash and investments	\$ 3,670,634
Receivables	
Accounts, net of allowance of \$20,000	14,345
Due from other governmental units	300,720
Prepaid items	655,670
Capital Assets, net of accumulated depreciation where applicable	
Building and building improvements	666,974
Equipment	645,879
Total assets	5,954,222
Deferred Outflows of Resources	
Other post-employment benefits	5,413
Pension plans	2,578,634
Total deferred outflows of resources	2,584,047
Liabilities	
Accounts payable	584,826
Deferred rent payable	71,830
Accrued payroll	136,832
Due to other governmental units	794,507
Unearned revenue	106,487
Long-term liabilities	
Due within one year:	
Compensated absences	191,788
Capital leases payable	146,734
Due in more than one year:	
Other post-employment benefits	76,107
Net pension liability	5,252,332
Total liabilities	7,361,443
Deferred Inflows of Resources	
Pension plans	5,466,011
Net Position (Deficit)	
Net investment in capital assets	1,166,119
Unrestricted	(5,455,304)
Total net deficit	\$ (4,289,185)

Sourcewell
Staples, Minnesota
Sourcewell Technology Fund
Statement of Revenues, Expenditures, and Changes in Net Position
Year Ended June 30, 2019

	<u>Sourcewell Technology Fund</u>
Operating Revenues	
Sales	\$ 1,173,574
Cost of sales	<u>1,020,031</u>
Gross profit	<u>153,543</u>
Charges for Services, State Aid, and Other	
Software, license, and support fees	5,986,066
Local district lease levy	589,609
Transportation fees	35,548
Service fees	348,115
Internet fees	2,166,929
Conference fees	651,174
State aid revenue	895,327
Other operating revenues	<u>323,331</u>
Total charges for services, state aid, and other	<u>10,996,099</u>
Total operating revenues	<u>11,149,642</u>
Operating Expenses	
Salaries and wages	6,064,668
Employee benefits	512,596
Purchased services	6,051,633
Supplies and materials	74,854
Travel	294,810
Indirect costs from governmental activities	1,410,643
Insurance	201,469
Telephone, communications, and utilities	226,800
Operating leases and rent	433,764
Repairs and maintenance	33,190
Depreciation	713,520
State aid passed to members	805,939
Other expenses	<u>36,218</u>
Total operating expenses	<u>16,860,104</u>
Operating Loss	(5,710,462)
Nonoperating Revenues (Expenses)	
Interest income	63,853
Capital lease interest expense	(120,361)
Loss on sale of capital assets	<u>(3,036,820)</u>
Total nonoperating revenues (expenses)	<u>(3,093,328)</u>
Loss Before Special Items and Transfers	(8,803,790)
Special Items	
Member withdrawal fees	5,049,472
Member support fees	606,070
Reorganization payments to members	<u>(2,083,848)</u>
Total special items	<u>3,571,694</u>
Transfers In	<u>6,410,643</u>
Change in Net Deficit	1,178,547
Net Deficit, Beginning of Year	<u>(5,467,732)</u>
Net Deficit, End of Year	<u>\$ (4,289,185)</u>

Sourcewell
Staples, Minnesota
Sourcewell Technology Fund
Statement of Cash Flows
Year Ended June 30, 2019

	Sourcewell Technology Fund
Operating Activities	
Receipts from sales to customers	\$ 14,748,337
Receipts from state aid	895,327
Payments for interfund balances	(1,410,643)
Payments to suppliers for goods and services	(9,387,611)
Payments made to employees	(6,713,424)
State aid payments to members	(805,939)
Payments for other operating expenses	35,610
Net cash used for operating activities	(2,638,343)
Investing Activities	
Proceeds from sale of capital assets	4,422,496
Purchase of capital assets	(785,724)
Investment income	63,853
Net cash from investment activities	3,700,625
Noncapital financing activities	
Total other post-employment benefits liability and related deferred inflows and outflows of resources	1,964
Net pension liability and related deferred inflows and outflows of resources	(1,598,309)
Principal payments on line of credit	(2,218,757)
Member withdrawal fees	5,049,472
Member support fees	606,070
Reorganization payments to members	(2,083,848)
Transfer from other funds	6,410,643
Net cash from noncapital financing activities	6,167,235
Capital and Related Financing Activities	
Capital lease interest payments	(174,837)
Principal payments on capital leases	(807,538)
Principal payments on certificates of participation payable	(2,825,000)
Net cash used for capital and related financing activities	(3,807,375)
Net Change in Cash and Investments	3,422,142
Cash and Investments, July 1	248,492
Cash and Investments, June 30	\$ 3,670,634
Reconciliation of Operating Loss to	
Net Cash used for Operating Activities	
Operating loss	\$ (5,710,464)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation	713,520
Changes in assets and liabilities	
Accounts receivable	254,071
Due from other governmental units	5,247,148
Prepaid items	(51,960)
Accounts payable	(2,643,912)
Deferred rent payable	71,830
Accrued payroll	(8,659)
Due to other governmental units	(395,250)
Unearned revenue	12,834
Compensated absences	(127,501)
Net cash used for operating activities	\$ (2,638,343)



Additional Reports
June 30, 2019

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sourcewell, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Sourcewell's basic financial statements and have issued our report thereon dated November 22, 2019.

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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
November 22, 2019



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors of
Sourcewell
Staples, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Sourcewell's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sourcewell's major federal programs for the year ended June 30, 2019. Sourcewell's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Sourcewell's compliance.

Opinion on Each Major Federal Program

In our opinion, Sourcewell complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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



Fargo, North Dakota
November 22, 2019



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, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, 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 other political subdivisions. 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 Other Political Subdivisions*. 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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
November 22, 2019

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Special Education Cluster (IDEA)	
Special Education Grants to States - Regional Low Incidence	84.027
Special Education Grants to States - CSPD	84.027
Special Education Grants to States - Centers of Excellence CSPD	84.173

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None

Section III – Minnesota Legal Compliance Findings

None

Section IV – Federal Award Findings and Questioned Costs

None