

Financial Statements
June 30, 2025

Sourcewell
Staples, Minnesota

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Name	Position	Term Expires
Elected		
Greg Zylka - Sub-Region IV	Chairperson	12/31/2028
Sharon Thiel - Sub-Region I	Vice-Chairperson	12/31/2025
Sara Nagel - Sub-Region II	Treasurer	12/31/2026
Shannon Pfieffer - Sub-Region II	Clerk	12/31/2027
Julia Kicker - Sub-Region I	Director	12/31/2026
Steven Barrows - Sub-Region IV	Director	12/31/2025
Chris Kircher - Sub-Region III	Director	12/31/2027
Douglas Dahlberg - Sub-Region III	Director	12/31/2028
Management		
Dr. Chad Coauette	Chief Executive Officer (CEO)	
Mike Carlson	Chief Financial Officer (CFO)	
Alaina Bundy	Director of Accounting & Finance	



Independent Auditor's Report

To the Board of Directors of
Sourcewell
Staples, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the major fund and the aggregate remaining fund information of Sourcewell as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Sourcewell's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of Sourcewell, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sourcewell and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Notes 1 and 10 to the financial statements, Sourcewell has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, for the year ended June 30, 2025. Accordingly, a restatement has been made to Sourcewell's net position as of July 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sourcewell's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sourcewell's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sourcewell's basic financial statements. The uniform financial accounting and reporting standards (UFARS) compliance table, and schedules of differences between UFARS and GAAP are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the uniform financial accounting and reporting standards (UFARS) compliance tables, and schedules of differences between UFARS and GAAP are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the official directory but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2025, 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 December 19, 2025, on our consideration of Sourcewell's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. 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 Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering Sourcewell's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
December 19, 2025

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, 2025.

Financial Highlights

Key financial highlights for the 2024-2025 fiscal year:

- Net position increased by \$16,301,860.
- The total proprietary fund net position as of June 30, 2025, is \$129,367,577.

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 the fund financial statements of the proprietary fund, providing both short-term and long-term information about Sourcewell's overall financial status, and the fiduciary fund. The proprietary fund statements tell how business-like services were financed in the short-term as well as what remains for future spending. The fiduciary fund statements account for resources held for the benefit of parties outside of Sourcewell.

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
 - o Fund Financial Statements

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.

Fund Financial Statements

The fund financial statements provide more detailed information about Sourcewell's proprietary fund. Funds are accounting devices Sourcewell uses to keep track of specific sources of funding and spending on programs:

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

Sourcewell has two kinds of funds:

Business-Type Fund – Sourcewell's business-type activities include cooperative purchasing and regional services and are accounted for in the Sourcewell fund. Sourcewell provides services on a fee for service basis. The business-type fund statements provide an economic resources measurement focus utilizing the accrual basis of accounting, which helps to determine whether programs are beneficial to the members and the agency.

Fiduciary Fund – Fiduciary funds are used to account for resources held for the benefit of parties outside of Sourcewell. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Sourcewell's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Sourcewell's fiduciary fund is a custodial fund, Better Health Collective.

Financial Analysis of Sourcewell as a Whole

Net Position

Sourcewell's net position was \$129,367,577 on June 30, 2025.

Statement of Net Position June 30, 2025 and 2024

	2025	2024*
Assets		
Current and other non-capital assets	\$ 154,752,935	\$ 130,618,415
Capital assets	19,232,099	14,481,066
Total assets	173,985,034	145,099,481
Deferred Outflows of Resources	10,519,233	10,889,089
Liabilities		
Current liabilities	18,873,951	7,727,649
Long-term liabilities	27,803,299	24,998,424
Total liabilities	46,677,250	32,726,073
Deferred Inflows of Resources	8,459,440	7,926,632
Net Position		
Net investment in capital assets	13,475,281	12,469,037
Unrestricted	115,892,296	102,866,828
Total net position	\$ 129,367,577	\$ 115,335,865

* Effective July 1, 2024, Sourcewell adopted provisions of GASB Statement No. 101, *Compensated Absences*. As a result of this change in accounting principle, it was not appropriate for Sourcewell to restate prior-period information for earlier periods than those presented in the basic financial statements. Therefore, information for the year ended June 30, 2024, was not restated. See Note 10 to the financial statements for further information on the change in accounting principle.

Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2025 and 2024

	2025	2024*
Revenues		
Program revenues		
Charges for services	\$ 128,514,958	\$ 114,297,970
General revenues		
Intergovernmental revenue	2,881,311	1,414,766
Total revenues	131,396,269	115,712,736
Expenses		
Salaries, wages, and employee benefits	65,719,724	46,756,231
Professional services	40,441,570	28,229,610
Supplies and materials	5,155,203	3,676,930
Travel	3,763,713	2,765,894
Depreciation and amortization	4,046,307	3,702,370
Other	784,644	1,419,374
Total expenses	119,911,161	86,550,409
Nonoperating items		
Investment gain	5,224,140	3,305,635
Interest expense	(62,283)	(34,422)
(Loss) gain on disposal of capital assets	(345,105)	5,481,230
Nonoperating items	4,816,752	8,752,443
Change in Net Position	16,301,860	37,914,770
Net Position, Beginning of Year, as previously reported	115,335,865	77,421,095
Adjustments (Note 10)	(2,270,148)	-
Net Position, Beginning of Year, as restated	113,065,717	77,421,095
Net Position - End of Year	\$ 129,367,577	\$ 115,335,865

* Effective July 1, 2024, Sourcewell adopted provisions of GASB Statement No. 101, *Compensated Absences*. As a result of this change in accounting principle, it was not appropriate for Sourcewell to restate prior-period information for earlier periods than those presented in the basic financial statements. Therefore, information for the year ended June 30, 2024, was not restated. See Note 10 to the financial statements for further information on the change in accounting principle.

Changes in Net Position. Sourcewell's total revenues were \$131,396,269 for the year ended June 30, 2025.

The total cost of all programs and services was \$119,911,161. Sourcewell's expenses are predominantly related to providing necessary services to members.

The increase in net position of \$16,301,860 is largely attributed to the growth of Cooperative Purchasing with administrative revenue increasing by approximately \$11.5 million from the prior year. Additionally, fees for other professional services increased by \$2 million, and intergovernmental revenue increased by nearly \$1.5 million due to additional regional grants through the Minnesota Department of Education.

Financial Analysis of Sourcewell's Funds

Revenues exceeded expenses in the Sourcewell fund by \$16,301,860. The positive net position change in the Sourcewell fund is attributed to continued growth in utilization of Cooperative Purchasing contracts.

Capital Assets

By the end of fiscal year 2025, Sourcewell's capital assets net of accumulated depreciation/amortization totaled \$19,232,099, including land, work in progress, buildings and improvements, land improvements, equipment and software, right-to-use leased assets, and right-to-use subscription-based IT assets. Total depreciation/amortization expense for the year was \$4,046,307. More detailed information about Sourcewell's capital assets is presented in Note 4 in the financial statements.

Long-Term Liabilities

At year end, Sourcewell has \$391,045 in direct borrowing liabilities, \$127,003 in lease liabilities, \$5,238,770 in subscription-based IT liabilities, \$6,535,214 in compensated absences, \$14,936,749 in net pension liability, and \$574,518 in OPEB liability. More detailed information about Sourcewell's long-term liabilities is presented in Notes 5 through 9 in the financial statements.

Factors Bearing on Sourcewell's Future

Sourcewell is a self-sustaining government organization with over 45 years of dedicated service helping government, education, and nonprofit agencies operate more efficiently through a variety of solutions. Sourcewell's ongoing priorities are Cooperative Purchasing revenue growth, regional impact, and the success of technology solutions and professional services. Management has maintained strong financial reserves to help bridge unforeseen gaps in these types of activities.

Sourcewell's Cooperative Purchasing program is a very mature and fiscally sound solution. The program offers members over 950 competitively solicited cooperative contracts ready for government, education, and nonprofit use, saving time and money for those Sourcewell seeks to serve. Management is committed to continually growing the size, scale, and value of this best-in-class solution.

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, Chief Financial Officer (CFO), at Sourcewell, 202 12th Street NE, Staples, MN 56479.

Sourcewell
Staples, Minnesota
Statement of Net Position
June 30, 2025

Assets	
Cash and cash equivalents	\$ 22,952,524
Investments	78,662,048
Receivables	
Accounts	43,414,646
Interest	688,211
Due from other governmental units	7,089,728
Prepaid items	1,945,778
Capital assets, net of accumulated depreciation/amortization where applicable	
Land	975,126
Work in progress	1,451,440
Building and building improvements	7,947,872
Land improvements	136,344
Equipment and software	2,790,289
Right-to-use leased assets	126,776
Right-to-use subscription-based IT assets	5,804,252
Total assets	<u>173,985,034</u>
Deferred Outflows of Resources	
Other post-employment benefits	66,310
Pension plans	10,452,923
Total deferred outflows of resources	<u>10,519,233</u>
Liabilities	
Accounts payable	12,902,349
Accrued payroll	5,246,695
Due to other governmental units	554
Unearned revenue	724,353
Long-term liabilities - due in less than one year	
Compensated absences	1,241,691
Direct borrowing	391,045
Lease liabilities	47,562
Subscription-based IT liabilities	2,005,413
Long-term liabilities - due in more than one year	
Compensated absences	5,293,523
Lease liabilities	79,441
Subscription-based IT liabilities	3,233,357
Other post-employment benefits	574,518
Net pension liability	14,936,749
Total liabilities	<u>46,677,250</u>
Deferred Inflows of Resources	
Other post-employment benefits	150,869
Pension plans	8,308,571
Total deferred inflows of resources	<u>8,459,440</u>
Net Position	
Net investment in capital assets	13,475,281
Unrestricted	115,892,296
Total net position	<u><u>\$ 129,367,577</u></u>

Sourcewell
Staples, Minnesota
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2025

Operating Revenues	
Software, license, and service fees	\$ 8,407,218
Intergovernmental revenue	2,881,311
Administrative fees	119,202,089
Other operating revenues	905,651
	<u>131,396,269</u>
Total operating revenues	
Operating Expenses	
Salaries and wages	52,490,956
Employee benefits	17,506,115
Actuarial pension adjustment	(4,277,347)
Professional services	40,441,570
Supplies and materials	5,155,203
Travel	3,763,713
Depreciation and amortization	4,046,307
Other expenses	784,644
	<u>119,911,161</u>
Total operating expenses	
Operating Income	11,485,108
Nonoperating Revenues (Expenses)	
Investment gain	5,224,140
Interest expense	(62,283)
Net loss on disposal of capital assets	(345,105)
	<u>4,816,752</u>
Total nonoperating revenues	
Change in Net Position	16,301,860
Net Position, Beginning of Year, as previously reported	115,335,865
Adjustments (Note 10)	(2,270,148)
Net Position, Beginning of Year, as restated	<u>113,065,717</u>
Net Position, End of Year	<u><u>\$ 129,367,577</u></u>

Sourcewell
Staples, Minnesota
Statement of Cash Flows
Year Ended June 30, 2025

Operating Activities	
Receipts from sales to customers	\$ 115,216,389
Receipts from state and federal aid	2,881,311
Payments to suppliers for goods and services	(37,524,549)
Payments made to employees	(65,860,160)
Payments for other operating expenses	(3,763,713)
Net cash from operating activities	<u>10,949,278</u>
Investing Activity	
Sale of investments	2,170,769
Investment income	5,224,140
Net cash from investing activity	<u>7,394,909</u>
Capital and Related Financing Activities	
Purchase of capital assets	(3,084,870)
Interest payments	(62,283)
Principal payments on leases, direct borrowings, and subscription-based IT liabilities	(2,312,786)
Net cash used for capital and related financing activities	<u>(5,459,939)</u>
Net Change in Cash and Cash Equivalents	12,884,248
Cash and Cash Equivalents, July 1	10,068,276
Cash and Cash Equivalents, June 30	<u>\$ 22,952,524</u>
Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating income	\$ 11,485,108
Adjustments to reconcile operating income	
to net cash from operating activities	
Depreciation and amortization	4,046,307
Changes in assets and liabilities	
Receivables	(6,629,730)
Due from other governmental units	(6,538,510)
Prepaid items	(252,801)
Deferred outflows of resources	369,856
Accounts payable	9,109,115
Accrued payroll	2,166,962
Due to other governmental units	554
Unearned revenue	(130,329)
Compensated absences	1,890,591
Other post-employment benefits	4,202
Net pension liability	(5,104,855)
Deferred inflows of resources	532,808
Net cash from operating activities	<u>\$ 10,949,278</u>
Schedule of Non-Cash Noncapital Financing Activities	
Acquisition of capital assets through contractual agreements	<u>\$ 6,057,575</u>

Sourcewell
Staples, Minnesota
Statement of Fiduciary Net Position
Year Ended June 30, 2025

	<u>Better Health Collective</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 11,332,795
Short-term investments	
Debt securities at fair market value	51,382
Receivables	
Member contribution	959,624
Pharmacy rebates	722,365
Interest receivable	53,545
Other receivables	23
Prepaid expenses	<u>15,464</u>
Total current assets	<u>13,135,198</u>
Software in progress	<u>27,500</u>
Long-Term Investments	
Debt securities at fair market value	<u>5,307,245</u>
Total assets	<u>18,469,943</u>
Liabilities	
Estimated liability for reported and unreported loss and loss adjustment expense	5,480,445
Accounts payable	173,247
Payable to claims administrator	<u>604,355</u>
Total liabilities	<u>6,258,047</u>
Net Position	
Restricted for other organization	<u><u>\$ 12,211,896</u></u>

Sourcewell
Staples, Minnesota
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2025

	<u>Better Health Collective</u>
Additions	
Contributions	
Member contributions earned	\$ 55,649,399
Less: reinsurance premiums ceded	<u>(3,926,483)</u>
Net contributions	<u>51,722,916</u>
Net investment income	577,077
Miscellaneous income	<u>706,061</u>
Total additions	<u>53,006,054</u>
Deductions	
Net claims and claims adjustment expenses incurred	
Claims and claims adjustment expenses incurred	50,264,659
Reinsurance recoveries	<u>(2,675,017)</u>
Total claims and claims adjustment expenses incurred, net	47,589,642
Professional services	<u>1,544,650</u>
Total deductions	<u>49,134,292</u>
Change in Net Position	3,871,762
Net Position, Beginning of Year	<u>8,340,134</u>
Net Position, End of Year	<u><u>\$ 12,211,896</u></u>

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, sub 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 and licensing services, teaching and professional development, services for students with special talents and special needs, software and networking services, procurement-as-a-service for branches of the U.S. Military, and cooperative purchasing services.

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

B. Reporting Entity

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

Component units are legally separate entities for which Sourcewell (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial burden or benefit with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units.

C. Basis of Accounting

Sourcewell's basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The accompanying financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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/amortization expense is included as a direct expense in the functional areas that utilize the related capital assets.

D. Fund Financial Statement Presentation

Proprietary activities are normally financed in whole or in part by fees and charges for services to external parties. Sourcewell's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets, liabilities, net position, revenues, and expenses are accounted for through the following major proprietary fund:

Sourcewell – This fund is the operating fund of Sourcewell and is used to account for all operational activities of Sourcewell except those accounted for in other funds. Activities include revenues and expenses generated by the procurement and offering of cooperatively sourced contracts, services provided to Region 5, acquisition and/or development of technology solutions, and centralized support costs.

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 fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Sourcewell's own programs. The accounting for fiduciary funds is much like that used for proprietary funds. Sourcewell reports one fiduciary fund, a custodial fund. Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Following is a description of Sourcewell's custodial fund:

Better Health Collective – This fund is used to account for the operation of a health insurance pool. All premiums collected from the participating agencies and all claims and administration charges paid for health insurance are accounted for in this fund. Better Health Collective and Sourcewell have entered into a management agreement whereby Sourcewell provides operational support in return for fees to perform accounting, marketing, administrative and other similar services for Better Health Collective. These fees are reported as revenues of Sourcewell on the Statement of Revenues, Expenses, and Changes in Net Position, and deductions of Better Health Collective on the Statement of Changes in Fiduciary Net Position. Complete audited financial statements for the Better Health Collective are available by contacting Mike Carlson, Chief Financial Officer at Sourcewell.

E. Other Significant Accounting Policies

Cash and Investments

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

Receivables

The carrying amount of the receivables has been reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management determined that no allowance was necessary at June 30, 2025.

Receivables 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 received on average 4 to 5 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 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 capital assets are recorded as capital assets at acquisition value at the date of donation. Acquisition value is the price that would have been paid to acquire an asset with equivalent service potential on the date of the donation. Sourcewell maintains a threshold level of \$15,000 or more for capitalizing 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 depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed by Sourcewell, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years. Land and work in progress are not depreciated.

Right to use leased assets are recognized at the lease commencement date and represent Sourcewell's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Right to use subscription IT assets are recognized at the subscription commencement date and represent Sourcewell's right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 2 to 5 years.

Compensated Absences Payable

Sourcewell recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee) during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences – vacation and unable to work pay. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation

Sourcewell's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

Unable to Work Pay

Sourcewell's policy permits substantially all employees to accumulate earned but unused sick leave within specified limits. All sick leave lapses when employees leave Sourcewell, except *excess unable-to-work leave*, which is defined as unable-to-work in excess of 90 days. The hours of *excess unable-to-work leave* will be paid at a rate of fifty percent of the employee's current pay rate upon retirement. Retirement is defined as meeting the age and service requirements of a public employee. A liability for the estimated value of sick leave that will be used by employees as time off is included in the liability for compensated absences, as well as a calculation of any *excess unable-to-work leave* anticipated to be paid in the upcoming year.

Long-Term Liabilities

Long-term debt and other long-term liabilities are reported as liabilities in the applicable business-type activities.

Lease liabilities represent Sourcewell's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present values of lease payments are discounted based on a borrowing rate determined by Sourcewell.

Subscription-based IT liabilities represent Sourcewell's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present values of subscription payments are discounted based on a borrowing rate determined by Sourcewell.

Postemployment Benefits Other Than Pensions (OPEB)

Under the provisions of the various employee and union contracts, Sourcewell provides certain postemployment benefits other than pensions to eligible retirees. These OPEB obligations are funded on a pay-as-you-go basis. The total OPEB liability, deferred outflows/inflows of resources, and OPEB expense were actuarially determined in accordance with GASB Statement No. 75. Additional information can be found in Note 8.

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 9.

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 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 assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then.

Sourcewell has two items that qualify for reporting in this category on the statement of net position. Deferred outflows of resources related to other post-employment benefits consists of various estimate differences and contributions made to the plan subsequent to the measurement date that will be recognized as expenses in future years. Deferred outflows of resources related to pension plans consists of various estimate differences and contributions made to the plan subsequent to the measurement date that will be recognized as expenses in future years.

Deferred Inflows of Resources

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 assets 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. Deferred inflows related to pension and other post-employment benefits activity as a result of various estimate differences that will be recognized as expenses in future years, reported in the statement of net position.

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/amortization, 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.

Sometimes Sourcewell will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is Sourcewell's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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 2025.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Standard

As of July 1, 2024, Sourcewell adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 10.

As of July 1, 2024, Sourcewell adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure. There was no effect of the implementation of this standard on disclosures during the year.

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 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.

As of June 30, 2025, the carrying amount of Sourcewell's deposits was \$8,367,145 and the bank balance was \$8,733,366. Sourcewell's deposits were secured by FDIC coverage of \$7,418,605 and pledged collateral of \$12,985,398.

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, 2025, Sourcewell had the following cash and investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Not Applicable	< 1	1 - 5	> 5
Cash and Cash Equivalents					
Deposits	\$ 8,367,145	\$ 8,367,145	\$ -	\$ -	\$ -
Money Market	12,098,396	12,098,396	-	-	-
Investments					
U.S. Government Securities	54,142,131	-	4,201,241	17,384,115	32,556,775
Municipal Bonds	27,006,900	-	6,815,956	10,852,045	9,338,899
	<u>\$ 101,614,572</u>	<u>\$ 20,465,541</u>	<u>\$ 11,017,197</u>	<u>\$ 28,236,160</u>	<u>\$ 41,895,674</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, 2025:

- U.S. government securities of \$54,142,131 are valued using quoted market prices (Level 1 inputs)
- Municipal bonds of \$27,006,900 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, 2025, 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.

Cash and investments are included within the financial statements as follows:

Cash and Cash Equivalents	
Statement of net position	\$ 22,952,524
Statement of fiduciary net position	11,332,795
Short-Term Investments	
Statement of net position	8,530,214
Statement of fiduciary net position	51,382
Long-Term Investments	
Statement of net position	70,131,834
Statement of fiduciary net position	5,307,245
	<u>\$ 118,305,994</u>

Note 3 - Due from other Governmental Units

Amounts receivable from other governments as of June 30, 2025, include:

<u>Fund</u>	<u>Federal</u>	<u>Other</u>	<u>Total</u>
Sourcewell	<u>\$ 6,585,996</u>	<u>\$ 503,732</u>	<u>\$ 7,089,728</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2025, is as follows:

	Balance July 1, 2024	Additions	Deletions	Balance June 30, 2025
Business-Type Activities				
Capital assets, not being depreciated/amortized				
Land	\$ 313,293	\$ 661,833	\$ -	\$ 975,126
Work in progress	787,245	3,482,066	2,817,871	1,451,440
Total capital assets, not being depreciated/amortized	1,100,538	4,143,899	2,817,871	2,426,566
Capital assets being depreciated/amortized				
Buildings and improvements	11,884,927	-	615,245	11,269,682
Land improvements	343,530	-	-	343,530
Equipment and software	11,593,115	1,699,237	1,123,378	12,168,974
Right-to-use leased assets	1,342,229	137,198	1,284,878	194,549
Right-to-use subscription-based IT assets	4,077,090	5,979,982	1,677,895	8,379,177
Total capital assets being depreciated/amortized	29,240,891	7,816,417	4,701,396	32,355,912
Less accumulated depreciation/amortization for				
Buildings and improvements	3,287,662	363,989	329,841	3,321,810
Land improvements	184,284	22,902	-	207,186
Equipment and software	8,885,426	1,556,936	1,063,677	9,378,685
Right-to-use leased assets	1,222,393	130,258	1,284,878	67,773
Right-to-use subscription-based IT assets	2,280,598	1,972,222	1,677,895	2,574,925
Total accumulated depreciation/amortization	15,860,363	4,046,307	4,356,291	15,550,379
Capital assets being depreciated/amortized, net	13,380,528	3,770,110	345,105	16,805,533
Business-Type Activities Capital Assets, Net	\$ 14,481,066	\$ 7,914,009	\$ 3,162,976	\$ 19,232,099

Depreciation/amortization expense of \$4,046,307 was recognized for the year ending June 30, 2025.

Note 5 - Leases Payable

Sourcewell has entered into lease agreements for office equipment. Sourcewell is required to make principal and interest payments through January 2030. The lease liabilities were valued using discount rates of 0.77%-2.29%, Sourcewell's historical five-year average investment rate of return at the inception of the leases.

The future principal and interest lease payments as of June 30, 2025, were as follows:

Years ending June 30,	Principal	Interest
2026	\$ 47,562	\$ 820
2027	44,753	454
2028	30,435	126
2029	2,830	25
2030	1,423	4
	<u>\$ 127,003</u>	<u>\$ 1,429</u>

Note 6 - Subscription-Based Information Technology Arrangements (SBITAs)

Sourcewell has entered into various SBITA contracts for various software. Sourcewell is required to make principal and interest payments through October 2028. The subscription liabilities were valued using discount rates of 0.55%-1.04%, Sourcewell's historical five-year average investment rate of return at the inceptions of the subscription. Sourcewell recognized interest expense of \$43,315 related to SBITAs.

Remaining principal and interest payments on subscriptions are as follows:

Years ending June 30,	Principal	Interest
2026	\$ 2,005,413	\$ 52,722
2027	1,432,380	40,265
2028	823,338	20,751
2029	977,639	15,054
	<u>\$ 5,238,770</u>	<u>\$ 128,792</u>

Note 7 - Long Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2025, are as follows:

	Balance July 1, 2024, as restated	Additions	Deletions	Balance June 30, 2025	Due Within One Year
Business-Type Activities					
Direct borrowing payable	\$ 773,336	\$ -	\$ 382,291	\$ 391,045	\$ 391,045
Leases payable	82,727	137,198	92,922	127,003	47,562
Subscription-based IT agreements payable	1,155,966	5,920,377	1,837,573	5,238,770	2,005,413
Compensated absences*	4,644,623	1,890,591	-	6,535,214	1,241,691
Total business-type activities					
long term liabilities	<u>\$ 6,656,652</u>	<u>\$ 7,948,166</u>	<u>\$ 2,312,786</u>	<u>\$ 12,292,032</u>	<u>\$ 3,685,711</u>

*Change in compensated absences is presented as the net change for the year.

Direct Borrowing

A direct borrowing agreement has been entered into to finance a software purchase. The present value of the software capital assets as of June 30, 2025, was \$1,912,433 and total accumulated amortization on this asset as of June 30, 2025, was \$1,274,955.

The direct borrowing payable has a final maturity in 2026 and a discount rate of 2.29%. Principal and interest payments are made from the Sourcewell fund. Remaining principal and interest payments on the direct borrowing payable are as follows:

Years ending June 30,	Principal	Interest
2026	<u>\$ 391,045</u>	<u>\$ 8,955</u>

Leases Payable

Leases payable consists of long-term leases as described in Note 5. Payments are made from the Sourcewell fund.

Subscription-Based IT Agreements Payable

Subscription-based IT agreements payable consists of long-term subscriptions for IT software as described in Note 6. Payments are made from the Sourcewell fund.

Compensated Absences

Compensated absences payable consists of estimated future use of unable to work pay and accumulated vacation benefits as discussed in Note 1.

Note 8 - Other Post-Employment Benefits

A. Plan Descriptions

The Sourcewell Group Insurance Plan is a single-employer defined benefit OPEB plan. 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 for TRA-eligible employees and 5 years of service for PERA-eligible employees, senior leadership team, and Chief Executive Officer (CEO). Benefit provisions are established through negotiations by Sourcewell and are renegotiated at the end of each contract period. Medical coverage is administered by Blue Cross & Blue Shield. The plan does not issue a publicly available financial report. No assets are accumulated in a trust.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of \$979 for single and \$2,240 for family coverage. The implicit rate subsidy is only until Medicare eligibility. The Sourcewell senior leadership team and Chief Executive Officer (CEO) reaching age 55 with at least 5 years of service will receive a subsidized benefit of Sourcewell contributing the cost of the single coverage premium until Medicare eligibility. There are no subsidized post-employment dental or life insurance benefits.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2024, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	2
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	336
	<u>338</u>

D. Total OPEB Liability

Sourcewell's total OPEB liability of \$574,518 was measured as of July 1, 2024, and was determined by actuarial valuations as of July 1, 2024.

E. Actuarial Assumptions

The total OPEB liability in the July 1, 2024, 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	Service graded table, based on years of service	
Discount Rate	4.10 percent	
Healthcare Cost Trend Rates	6.50 percent in 2024, grading to 5.00 percent over the next 6 years and then to 4.00 percent over the next 48 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 spouse 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 Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers), with MP-2021 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2024, valuation were based on inputs from a variety of published sources of historical and projected future financial data. The salary scales used to value GASB 75 liabilities are similar to the tables used to value pension liabilities for Minnesota school district employees. The rates for teachers, principals and the superintendent are based on the Teacher Retirement Association of Minnesota actuarial experience study for the period July 1, 2014, through June 30, 2018, and a study of economic assumptions dated November 2017. The rates for other employees are based on the Public Employees Retirement Association of Minnesota most recent four-year experience study for the General Employees Plan completed in 2019 and a review of the inflation assumption. The retirement and withdrawal assumptions used to value GASB 75 liabilities are similar to those used to value pension liabilities for Minnesota school district employees. The rates are based on the Teacher Retirement Association of Minnesota actuarial experience study for the period July 1, 2014, through June 30, 2018.

There were no changes in plan provisions made for the year ending June 30, 2025.

The following changes in assumptions were made for the year ending June 30, 2025:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The discount rate was changed from 3.90% to 4.10%.

F. Changes in the Total OPEB Liability

Balance at July 1, 2024	\$ 570,316
Changes from the Prior Year:	
Service cost	100,273
Interest cost	25,681
Assumption changes	6,295
Differences between expected and actual experience	(103,631)
Benefit payments	(24,416)
Net Change	<u>4,202</u>
Balance at June 30, 2025	<u><u>\$ 574,518</u></u>

Sourcewell's total OPEB liability was measured as of July 1, 2024, and was determined by actuarial valuations as of July 1, 2024.

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

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	3.10%	4.10%	5.10%
Total OPEB Liability	\$ 609,944	\$ 574,518	\$ 540,718

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

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Medical Trend Rate	5.50%, grading to 4.00% over 6 years and then to 3.00% over the next 48 years	6.50%, grading to 5.00% over 6 years and then to 4.00% over the next 48 years	7.50%, grading to 6.00% over 6 years and then to 5.00% over the next 48 years
Total OPEB Liability	\$ 516,063	\$ 574,518	\$ 642,099

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

For the year ended June 30, 2025, Sourcewell recognized OPEB expense of \$103,093. At June 30, 2025, Sourcewell reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability losses/gains	\$ 32,848	\$ 127,077
Assumption changes	7,448	23,792
Employer contributions made after the measurement date	26,014	-
	<u>\$ 66,310</u>	<u>\$ 150,869</u>

The \$26,014 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Years Ended June 30,	OPEB Expense Amount
2026	\$ (23,854)
2027	(29,397)
2028	(30,493)
2029	(10,603)
2030	(16,226)

Note 9 - 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.

For the year ended June 30, 2025, Sourcewell reported its proportionate share of deferred outflows of resources, net pension liabilities, deferred inflows of resources, and pension expense for each of the plans as follows:

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Pension Expense
PERA	\$ 8,303,270	\$ 11,537,187	\$ 7,323,146	\$ 1,238,148
TRA	2,149,653	3,399,562	985,425	305,909
Total all plans	<u>\$ 10,452,923</u>	<u>\$ 14,936,749</u>	<u>\$ 8,308,571</u>	<u>\$ 1,544,057</u>

Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Descriptions

Sourcewell participates in the General Employees Retirement Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines the plan's financial reporting requirements. The General Employees Retirement Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989, or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2024 annual increase was 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a prorated increase.

C. Contribution Rate

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.50 percent for General Plan members. Sourcewell's contributions to the General Employees Fund for the year ended June 30, 2025, were \$3,063,729. Sourcewell's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At June 30, 2025, Sourcewell reported a liability of \$11,537,187 for its proportionate share of the General Employees Fund's net pension liability. Sourcewell'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 totaled \$298,328.

Sourcewell's proportionate share of net pension liability	\$ 11,537,187
State of Minnesota's proportionate share of the net pension liability associated with Sourcewell	<u>298,328</u>
Total	<u><u>\$ 11,835,515</u></u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell's proportion of the net pension liability was based on Sourcewell's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. Sourcewell's proportionate share was 0.3121 percent at the end of the measurement period and 0.2657 percent for the beginning of the period.

For the year ended June 30, 2025, Sourcewell recognized pension expense of \$1,238,148 for its proportionate share of General Employees Fund's pension expense. In addition, Sourcewell recognized \$7,998 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. Sourcewell recognized \$530,818 for the year ended June 30, 2025, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At June 30, 2025, Sourcewell reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources 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	\$ 1,019,942	\$ -
Changes in actuarial assumptions	38,554	3,892,780
Net difference between projected and actual earnings on pension plan investments	-	3,430,366
Changes in proportion	4,181,045	-
Contributions paid to PERA subsequent to the measurement date	<u>3,063,729</u>	<u>-</u>
Total	<u>\$ 8,303,270</u>	<u>\$ 7,323,146</u>

The \$3,063,729 reported as deferred outflows of resources related to pensions resulting from Sourcewell contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2026	\$ (1,108,980)
2027	618,627
2028	(708,996)
2029	(884,256)

E. Long-Term Expected Return on Investment

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 Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
	100.0%	

F. Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

Inflation is assumed to be 2.25 percent for the General Employees Plan.

Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The table is adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

G. Discount Rate

The discount rate used to measure the total pension liability in 2024 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents Sourcewell's proportionate share of the net pension liability for the plan 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 one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis
Net Pension Liability (Asset) at Different Discount Rates

	<u>General Employees Fund</u>	
1% Lower	6.00%	\$ 25,199,073
Current Discount Rate	7.00%	\$ 11,537,187
1% Higher	8.00%	\$ 299,040

I. Pension Plan Fiduciary Net Position

Detailed information about each 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 Descriptions

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 employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage within one year of eligible employment or elect coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing DCR plan is not a member of TRA except for purposes of social security coverage.

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 consecutive 60 months of formula service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan.

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>Tier 1</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 up 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 up 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

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for coordinated members and 2.7% per year for Basic members applies. An early retirement reduction is applied to members retiring prior to age 65. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) reduction rate applied.

Tier II Benefits

Members first employed after June 30, 1989, receive only the Tier II benefit calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. After July 1, 2024, the age will change to not to exceed 65. An early retirement reduction is applied to members retiring before age 66, but will be age 65 after July 1, 2024. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) early retirement reduction rate applied.

Six different types of annuities are available to members upon retirement. The No Refund 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 the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. Sourcewell's contributions to TRA for the plan's fiscal year ended June 30, 2025, were \$435,747. Sourcewell's contributions were equal to the required contributions for each year as set by state statute.

D. Actuarial Assumptions

The total pension liability in the July 1, 2024, 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	
Experience Studies	August 2, 2023 (demographic and economic assumptions)*
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028
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	PubT-2010 (A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Healthy Retirees	PubT-2010 (A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	PubT-2010 (A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disabled Retirees	PubNS-2010 Disabled Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

*The assumptions prescribed are based on the experience study dated August 2, 2023. For GASB 67 purposes, the long-term rate of return assumptions is selected by TRA management in consultation with actuary.

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 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 Equity	33.5%	4.36%
International Equity	16.5%	5.28%
Private Markets	20.0%	6.70%
Fixed Income	25.0%	2.03%
Unallocated Cash	5.0%	2.92%
	100.0%	

Changes in actuarial assumptions since the 2023 valuation

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint & Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2024 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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Net Pension Liability

On June 30, 2025, Sourcewell reported a liability of \$3,399,562, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell's proportion of the net pension liability was based on Sourcewell's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. Sourcewell's proportionate share was 0.0535 percent at the end of the measurement period and 0.0484 percent for the beginning of the year.

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

Sourcewell's proportionate share of net pension liability	\$ 3,399,562
State's proportionate share of the net pension liability associated with Sourcewell	<u>2,221,214</u>
Total	<u><u>\$ 5,620,776</u></u>

For the year ended June 30, 2025, Sourcewell recognized pension expense of \$305,909. It also recognized \$2,718 as a decrease to pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. Sourcewell recognized \$94,249 for the year ended June 30, 2025, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

On June 30, 2025, Sourcewell reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 153,631	\$ 37,163
Net difference between projected and actual investment earnings on pension plan investments	-	542,855
Changes of assumptions	231,326	405,407
Changes in proportion	1,328,949	-
Sourcewell's contributions to TRA subsequent to the measurement date	<u>435,747</u>	<u>-</u>
Total	<u>\$ 2,149,653</u>	<u>\$ 985,425</u>

The \$435,747 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 in the net pension liability in the year ended June 30, 2026. 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>
2026	\$ 333,908
2027	383,718
2028	(17,606)
2029	19,522
2030	8,939

G. Pension Liability Sensitivity

The following presents Sourcewell's proportionate share of the net pension liability of TRA calculated using the discount rate of 7%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate.

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
TRA Discount Rate	6.00%	7.00%	8.00%
Sourcewell's Proportionate Share of the TRA Net Pension Liability	\$ 5,986,827	\$ 3,399,562	\$ 1,270,181

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 10 - Change in Accounting Principle

As of July 1, 2024, Sourcewell adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provide guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, compensated absences liability was increased by \$2,270,148 as of July 1, 2024. The effect of this change in accounting principle is described in the table below.

	<u>July 1, 2024, As Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>July 1, 2024, As Restated</u>
Net Position	<u>\$ 115,335,865</u>	<u>\$ (2,270,148)</u>	<u>\$ 113,065,717</u>

Note 11 - Commitments and Contingencies

Federal and State Revenue

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although Sourcewell expects such amounts, if any, to be immaterial.

Work in Progress Commitments

Sourcewell has active capital asset projects as of June 30, 2025. These projects include various office furnishings and software and technology projects with costs of \$1,451,440 reported as work in progress with remaining commitments of \$1,423,439 as of June 30, 2025.

Litigation and Potential Exposure

In the ordinary course of its operations, Sourcewell is party to legal proceedings as a plaintiff or defendant. The financial impact of remaining actions is not determinable at June 30, 2025, but, in the opinion of management and legal counsel, the ultimate disposition of any or all of these proceedings will not have a material effect on Sourcewell's financial position.

Required Supplementary Information
June 30, 2025

Sourcewell Staples, Minnesota

Sourcewell
Staples, Minnesota
Schedule of Changes in Total OPEB Liability and Related Ratios
June 30, 2025

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

	2025	2024	2023	2022	2021	2020	2019	2018
Service cost	\$ 100,273	\$ 82,485	\$ 73,780	\$ 78,619	\$ 73,971	\$ 57,654	\$ 53,450	\$ 37,868
Interest cost	25,681	19,884	11,763	11,455	11,469	10,872	8,845	6,243
Assumption changes	6,295	(3,403)	(37,925)	6,287	(15,403)	5,979	7,450	(5,424)
Plan changes	-	-	-	-	-	-	16,963	-
Differences between expected and actual experience	(103,631)	37,117	(81,440)	-	48,650	-	(13,309)	-
Benefit payments	(24,416)	(12,945)	(10,374)	(7,282)	(24,615)	(38,200)	(16,197)	(2,765)
Net Change in Total OPEB Liability	4,202	123,138	(44,196)	89,079	94,072	36,305	57,202	35,922
Total OPEB Liability - Beginning	570,316	447,178	491,374	402,295	308,223	271,918	214,716	178,794
Net OPEB Liability, End of Year	<u>\$ 574,518</u>	<u>\$ 570,316</u>	<u>\$ 447,178</u>	<u>\$ 491,374</u>	<u>\$ 402,295</u>	<u>\$ 308,223</u>	<u>\$ 271,918</u>	<u>\$ 214,716</u>
Covered Payroll	\$ 35,645,806	\$ 23,741,523	\$ 20,070,375	\$ 15,935,560	\$ 15,471,417	\$ 11,699,462	\$ 11,358,701	\$ 6,879,565
Sourcewell's Total OPEB Liability as a Percentage of Covered Payroll	1.61%	2.40%	2.23%	3.08%	2.60%	2.63%	2.39%	3.12%

*GASB Statement No. 75 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 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.

2025 Changes

There were no changes in benefits.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The discount rate was changed from 3.90% to 4.10%.

2024 Changes

There were no changes in benefits.

Assumption Changes:

- The discount rate was changed from 3.80% to 3.90%.

2023 Changes

There were no changes in benefits.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The salary increase rates for non-TRA eligible employees were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The discount rate was changed from 2.10% to 3.80%.

2022 Changes

There were no changes in benefits.

Assumption Changes:

- The discount rate was changed from 2.40% to 2.10%.

2021 Changes

There were no changes in benefits.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.10% to 2.40%.

2020 Changes

There were no changes in benefits.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.10% to 2.40%.

2019 Changes

Benefit Changes:

- One retiree is receiving client paid post-employment subsidies per a special agreement.

Assumption Changes:

- The health care trend rates, mortality tables, and the percentage of future spouses assumed to continue on the client's medical plan post-employment were updated.
- The discount rate was changed from 3.40% to 3.50%.

Sourcewell
Staples, Minnesota
Schedule of Employer's Share of Net Pension Liability
June 30, 2025

**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	6/30/2024	0.3121%	\$ 11,537,187	\$ 298,328	\$ 11,835,515	\$ 26,412,573	43.7%	89.1%
PERA	6/30/2023	0.2657%	\$ 14,857,646	\$ 409,537	\$ 15,267,183	\$ 19,911,436	74.6%	83.1%
PERA	6/30/2022	0.2136%	\$ 16,917,190	\$ 496,047	\$ 17,413,237	\$ 15,042,041	112.5%	76.7%
PERA	6/30/2021	0.1969%	\$ 8,408,512	\$ 256,762	\$ 8,665,274	\$ 13,313,106	63.2%	87.0%
PERA	6/30/2020	0.1838%	\$ 11,019,650	\$ 339,865	\$ 11,359,515	\$ 12,312,307	89.5%	79.1%
PERA	6/30/2019	0.1596%	\$ 8,823,927	\$ 274,155	\$ 9,098,082	\$ 10,411,911	84.7%	80.2%
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%
TRA	6/30/2024	0.0535%	\$ 3,399,562	\$ 2,221,214	\$ 5,620,776	\$ 3,542,354	96.0%	82.1%
TRA	6/30/2023	0.0484%	\$ 3,996,012	\$ 279,967	\$ 4,275,979	\$ 3,077,988	129.8%	76.4%
TRA	6/30/2022	0.0364%	\$ 2,914,719	\$ 216,156	\$ 3,130,875	\$ 2,251,607	129.5%	76.2%
TRA	6/30/2021	0.0361%	\$ 1,579,844	\$ 133,090	\$ 1,712,934	\$ 2,157,811	73.2%	86.6%
TRA	6/30/2020	0.0348%	\$ 2,571,071	\$ 215,370	\$ 2,786,441	\$ 2,020,114	127.3%	75.5%
TRA	6/30/2019	0.0270%	\$ 1,720,986	\$ 152,357	\$ 1,873,343	\$ 1,531,064	112.4%	78.2%
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%

**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	6/30/2025	\$ 3,063,729	\$ 3,063,729	\$ -	\$ 40,849,720	7.5%
PERA	6/30/2024	\$ 1,980,943	\$ 1,980,943	\$ -	\$ 26,412,573	7.5%
PERA	6/30/2023	\$ 1,493,358	\$ 1,493,358	\$ -	\$ 19,911,436	7.5%
PERA	6/30/2022	\$ 1,128,153	\$ 1,128,153	\$ -	\$ 15,042,041	7.5%
PERA	6/30/2021	\$ 998,483	\$ 998,483	\$ -	\$ 13,313,106	7.5%
PERA	6/30/2020	\$ 923,423	\$ 923,423	\$ -	\$ 12,312,307	7.5%
PERA	6/30/2019	\$ 780,893	\$ 780,893	\$ -	\$ 10,411,911	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%
TRA	6/30/2025	\$ 435,747	\$ 435,747	\$ -	\$ 4,979,966	8.8%
TRA	6/30/2024	\$ 309,956	\$ 309,956	\$ -	\$ 3,542,354	8.8%
TRA	6/30/2023	\$ 263,168	\$ 263,168	\$ -	\$ 3,077,988	8.6%
TRA	6/30/2022	\$ 187,784	\$ 187,784	\$ -	\$ 2,251,607	8.3%
TRA	6/30/2021	\$ 175,430	\$ 175,430	\$ -	\$ 2,157,811	8.1%
TRA	6/30/2020	\$ 159,993	\$ 159,993	\$ -	\$ 2,020,114	7.9%
TRA	6/30/2019	\$ 118,045	\$ 118,045	\$ -	\$ 1,531,064	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%

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

2024 Changes

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The mortality 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 4.00 percent to 3.00 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.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 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.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

TRA

2024 Changes

Changes in Actuarial Assumptions

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint & Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.50% to 7.00%. This does not affect the GASB valuation which was already using the 7.00% assumption.

Changes in Plan Provisions

- Effective July 1, 2025, the normal retirement age for Tier 2 members will decrease from 66 to 65.
- The employer contribution rate will increase from 8.75% to 9.50% on July 1, 2025.
- The employer contribution rate will increase from 7.75% to 8.00% on July 1, 2025.

2022 Changes

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.50 percent to 7.00 percent.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019 Changes

Changes in Actuarial Assumptions

- 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The cost of living adjustment (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% on 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 July 1, 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% 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 was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.

- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the 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.
- The post-retirement mortality assumption was changed to the 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.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Augmentation in the early retirement reduction factors is phased out o Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes of benefit terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA Comprehensive Annual Financial Report.

PERA's Comprehensive Annual Financial Report 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.

Additional financial and actuarial information can be found in TRA's GASB 67-68 report. Both reports can be obtained at <https://minnesotatra.org>.

Other Supplementary Information
June 30, 2025

Sourcewell
Staples, Minnesota

Fiscal Compliance Report - 6/30/2025

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

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	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$136,275,304	\$136,620,408	(\$345,102)	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$119,973,444	\$124,516,531	(\$4,543,087)	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$0	\$13,681,065	(\$13,681,065)	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted / Reserved:				Restricted / Reserved:			
4.01 Student Activities	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.02 Scholarships	\$0	\$0	\$0	4.13 Funded by COP/FP	\$0	\$0	\$0
4.03 Staff Development	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.12 Literacy Incentive Aid	\$0	\$0	\$0	Unassigned:			
4.14 Operating Debt	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.16 Levy Reduction	\$0	\$0	\$0				
4.17 Taconite Building Maint	\$0	\$0	\$0	07 DEBT SERVICE			
4.20 American Indian Education Aid	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.24 Operating Capital	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Non Spendable:			
4.27 Disabled Accessibility	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.28 Learning & Development	\$0	\$0	\$0	Restricted / Reserved:			
4.34 Area Learning Center	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.33 Maximum Effort Loan Aid	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.37 Q Comp	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	Restricted:			
4.39 English Learner	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	Unassigned:			
4.41 Basic Skills Programs	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.43 School Library Aid	\$0	\$0	\$0				
4.48 Achievement and Integration	\$0	\$0	\$0	08 TRUST			
4.49 Safe Schools Levy	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.51 QZAB Payments	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Restricted / Reserved:			
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	4.01 Student Activities	\$0	\$0	\$0
4.56 READ Act - Literacy Aid	\$0	\$0	\$0	4.02 Scholarships	\$0	\$0	\$0
4.57 READ Act - Tchrr Training Compensation	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.59 Basic Skills Extended Time	\$0	\$0	\$0				
4.67 LTFM	\$0	\$0	\$0	18 CUSTODIAL			
4.71 Student Support Personnel Aid	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.72 Medical Assistance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Restricted:				Restricted / Reserved:			
4.64 Restricted Fund Balance	\$0	\$0	\$0	4.01 Student Activities	\$0	\$0	\$0
4.75 Title VII Impact Aid	\$0	\$0	\$0	4.02 Scholarships	\$0	\$0	\$0
4.76 Payments in Lieu of Taxes	\$0	\$0	\$0	4.48 Achievement and Integration	\$0	\$0	\$0
Committed:				4.64 Restricted Fund Balance	\$0	\$0	\$0
4.18 Committed for Separation	\$0	\$0	\$0				
4.61 Committed Fund Balance	\$0	\$0	\$0	20 INTERNAL SERVICE			
Assigned:				Total Revenue	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Unassigned:				4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.22 Unassigned Fund Balance	\$129,367,577	\$129,137,988	\$229,589	25 OPEB REVOCABLE TRUST			

Sourcewell
Staples, Minnesota

Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2025

02 FOOD SERVICES

Total Revenue	\$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>			
4.52 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>

04 COMMUNITY SERVICE

Total Revenue	\$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>
4.37 Q Comp	\$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>
4.56 READ Act - Literacy Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.57 READ Act - Tch Training Compensation	\$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>

Total Revenue	\$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>

45 OPEB IRREVOCABLE TRUST

Total Revenue	\$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>

47 OPEB DEBT SERVICE

Total Revenue	\$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:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
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, 2025

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.

Audit (GAAP) Revenue		\$ 136,275,304
Reconciling Items		
Loss on sale of capital assets	\$ 345,105	
Rounding difference	(3)	
Total reconciling items		<u>345,102</u>
UFARS Revenue		<u>\$ 136,620,406</u>
Audit (GAAP) Expenses		\$ 119,973,444
Reconciling Items		
Pension adjustment	\$ 4,277,347	
OPEB adjustment	(79,360)	
Loss on sale of capital assets	345,105	
Rounding difference	(5)	
Total reconciling items		<u>4,543,087</u>
UFARS Expenditures		<u>\$ 124,516,531</u>
Audit (GAAP) Net Position		\$ 129,367,577
Reconciling Items		
Deferred outflows of resources	\$ (10,519,233)	
Net pension liability	14,936,749	
Net OPEB liability	574,518	
Deferred inflows of resources	8,459,440	
Total reconciling items		<u>13,451,474</u>
UFARS Fund Balance		
Nonspendable	\$ 13,681,065	
Unassigned	<u>129,137,986</u>	
Total		<u>\$ 142,819,051</u>