



Financial Statements
June 30, 2023

Sourcewell

Staples, Minnesota

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Greg Zylka - Sub-Region IV	Chairperson	12/31/2024
Sharon Thiel - Sub-Region I	Vice-Chairperson	12/31/2025
Sara Nagel - Sub-Region II	Treasurer	12/31/2026
Linda Arts - Sub-Region II	Clerk	12/31/2023
Julia Kicker - Sub-Region I	Director	12/31/2026
Steven Barrows - Sub-Region IV	Director	12/31/2025
Chris Kircher - Sub-Region III	Director	12/31/2023
Douglas Dahlberg - Sub-Region III	Director	12/31/2024

Management

Dr. Chad Coauette	Chief Executive Officer (CEO)
Mike Carlson	Chief Financial Officer (CFO)
Alaina Bundy	Manager 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 each major fund and the aggregate remaining fund information of Sourcewell, Staples, Minnesota, as of and for the year ended June 30, 2023, 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 each major fund and the aggregate remaining fund information of Sourcewell, as of June 30, 2023, 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.

Change in Reporting Entity

As discussed in Note 10 to the financial statements, Sourcewell has reclassified the Risk Management Fund from a proprietary fund to a custodial fund as of July 1, 2022. Accordingly, a restatement has been made to the business-type activities and fiduciary fund net positions as of July 1, 2022, 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 Sourcewell's total OPEB liability and related ratios, schedule of changes in Sourcewell Technology's total OPEB liability and related ratios, schedules of employer's share of net pension liability, and schedules 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 tables, schedules of differences between UFARS and GAAP, and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, schedules of differences between UFARS and GAAP, and the Schedule of Expenditures of Federal Awards 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 15, 2023, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 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 15, 2023, 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.



Fargo, North Dakota
December 15, 2023

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, 2023.

Financial Highlights

Key financial highlights for the 2022-2023 fiscal year:

- Net position increased by \$19,950,938, as summarized below:

Sourcewell	\$ 17,281,787
Sourcewell Technology	<u>2,669,151</u>
Total Proprietary Funds	<u>\$ 19,950,938</u>

The total proprietary funds net position as of June 30, 2023 is \$77,421,095.

As of July 1, 2022, Sourcewell has reclassified the Risk Management proprietary fund to a custodial fund. This resulted from a newly formed legal entity called the Better Health Collective, which now is a standalone entity operating the risk management activities that were previously operated by Sourcewell. This constitutes a change in reporting entity and the effects of the restatement on net position are disclosed in Note 10 of the financial statements.

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 funds, providing both short-term and long-term information about Sourcewell's overall financial status, and the fiduciary fund. The proprietary funds 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
 - Fund Financial Statements
3. Additional Reports
 - Schedule of Expenditures of Federal Awards

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

Fund Financial Statements

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

- Sourcewell establishes several funds 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 Funds – Sourcewell's business-like activities include cooperative purchasing and regional services and are accounted for in the Sourcewell fund (previously the Enterprise Solutions fund). Additionally, technology solutions and activities are accounted for in the Sourcewell Technology fund through December 31, 2022. See Factors Bearing on Sourcewell's Future for management's outlook on Sourcewell Technology's future performance. Sourcewell provides services for all funds on a fee for service basis. These funds are accounted for in a separate section in the audit report to provide accounting methods similar to those used by private sector companies. The business-type funds 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, the Better Health Collective.

Financial Analysis of Sourcewell as a Whole

Net Position

Sourcewell's combined net position was \$77,421,095 on June 30, 2023.

Statement of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u> (as restated)
Assets		
Current assets	\$ 87,709,055	\$ 68,563,018
Capital assets	16,282,480	17,920,304
Total assets	<u>103,991,535</u>	<u>86,483,322</u>
Deferred Outflows of Resources	<u>10,837,633</u>	<u>12,465,608</u>
Liabilities		
Current liabilities	5,736,477	7,332,568
Long-term liabilities	29,462,262	20,500,470
Total liabilities	<u>35,198,739</u>	<u>27,833,038</u>
Deferred Inflows of Resources	<u>2,209,334</u>	<u>13,645,735</u>
Net Position		
Net investment in capital assets	12,968,609	12,523,257
Unrestricted	64,452,486	44,946,900
Total net position	<u>\$ 77,421,095</u>	<u>\$ 57,470,157</u>

Statement of Activities
Years Ended June 30, 2023 and 2022

	2023	2022 (as restated)
Revenues		
Program revenues		
Charges for services	\$ 83,502,936	\$ 63,565,739
General revenues		
Intergovernmental revenue	1,785,510	1,072,914
Total revenues	85,288,446	64,638,653
Expenses		
Sourcewell	58,838,840	47,563,627
Sourcewell Technology	6,412,966	14,390,612
Total expenses	65,251,806	61,954,239
Nonoperating items and transfers		
Investment gain (loss)	10,278	(3,162,286)
Interest expense	(52,719)	(26,312)
Loss on disposal of capital assets	(43,261)	(33,456)
Nonoperating items and transfers	(85,702)	(3,222,054)
Change in Net Position	19,950,938	(537,640)
Net Position - Beginning, as Restated July 1, 2021	57,470,157	58,007,797
Net Position - Ending	\$ 77,421,095	\$ 57,470,157

Changes in Net Position. Sourcewell's total revenues were \$85,288,446 for the year ended June 30, 2023.

The total cost of all programs and services was \$65,251,806. Sourcewell's expenses are predominantly related to providing necessary services to members.

The increase in net position of \$19,950,938 is largely attributed to the growth of Cooperative Purchasing and favorable expense performance to budget.

Financial Analysis of Sourcewell's Funds

Revenues exceeded expenses before transfers in the Sourcewell fund by \$24,094,554. The positive net position change in the Sourcewell fund is attributed to continued growth in utilization of Cooperative Purchasing contracts and favorable operating expenses. Expenses exceeded revenues before transfers in Sourcewell Technology by \$4,143,616 due to the transition of reporting Sourcewell Technology within the Sourcewell fund as of January 1, 2023, as well as ongoing operating losses. See Factors Bearing on Sourcewell's Future for management's outlook on Sourcewell Technology's future performance.

Capital Assets

By the end of 2023, Sourcewell's capital assets net of accumulated depreciation totaled \$16,282,480, including land, buildings, land improvements, equipment, right-of-use leased assets, and right-of-use subscription-based IT assets. Total depreciation/amortization expense for the year was \$3,302,798. More detailed information about Sourcewell's capital assets is presented in Note 4 in the financial statements.

Compensated Absences

On June 30, 2023, Sourcewell had \$1,831,848 in compensated absences. More detailed information is presented in Note 7.

Long-Term Liabilities

At year end, Sourcewell has \$1,147,068 in direct borrowing liabilities, \$414,591 in lease liabilities, \$1,752,212 in subscription-based IT liabilities, \$23,839,833 in net pension liability, and \$476,710 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 40 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 650 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.

Sourcewell Technology has sustained significant losses over the past four years as management restructured organization roles, processes, and technology to align to its strategic vision. Focus has been placed on integrating these processes and systems into the Sourcewell umbrella of operations to increase efficiencies and streamline delivery of services, producing cost savings and freeing up resources for revenue-generating activities. During the past fiscal year, Sourcewell Technology ceased all operations as a separate entity on January 1, 2023, and was formally dissolved by resolution of the Board of Directors and dissolution of the Joint Powers Agreement on March 31, 2023.

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, 2023

	Sourcewell	Sourcewell Technology	Total
Assets			
Cash and investments	\$ 60,575,668	\$ -	\$ 60,575,668
Receivables			
Accounts	25,268,547	-	25,268,547
Due from other governmental units	485,520	-	485,520
Prepaid items	1,379,320	-	1,379,320
Capital assets, net of accumulated depreciation/amortization where applicable			
Land	313,293	-	313,293
Work in progress	132,591	-	132,591
Building and building improvements	8,997,221	-	8,997,221
Land improvements	183,598	-	183,598
Equipment and software	3,785,197	-	3,785,197
Right-of-use assets	524,727	-	524,727
Right-of-use subscription-based IT assets	2,345,853	-	2,345,853
Total assets	<u>103,991,535</u>	<u>-</u>	<u>103,991,535</u>
Deferred Outflows of Resources			
Other post-employment benefits	49,606	-	49,606
Pension plans	10,788,027	-	10,788,027
Total deferred outflows of resources	<u>10,837,633</u>	<u>-</u>	<u>10,837,633</u>
Liabilities			
Accounts payable	2,672,598	-	2,672,598
Accrued payroll	2,145,461	-	2,145,461
Due to other governmental units	413	-	413
Unearned revenue	918,005	-	918,005
Long-term liabilities - due in less than one year			
Compensated absences	1,831,848	-	1,831,848
Direct borrowing	373,732	-	373,732
Lease liabilities	307,678	-	307,678
Subscription-based IT liabilities	1,104,827	-	1,104,827
Long-term liabilities - due in more than one year			
Direct borrowing	773,336	-	773,336
Lease liabilities	106,913	-	106,913
Subscription-based IT liabilities	647,385	-	647,385
Other post-employment benefits	476,710	-	476,710
Net pension liability	23,839,833	-	23,839,833
Total liabilities	<u>35,198,739</u>	<u>-</u>	<u>35,198,739</u>
Deferred Inflows of Resources			
Other post-employment benefits	138,360	-	138,360
Pension plans	2,070,974	-	2,070,974
Total deferred inflows of resources	<u>2,209,334</u>	<u>-</u>	<u>2,209,334</u>
Net Position			
Net investment in capital assets	12,968,609	-	12,968,609
Unrestricted	64,452,486	-	64,452,486
Total net position	<u>\$ 77,421,095</u>	<u>\$ -</u>	<u>\$ 77,421,095</u>

Sourcewell
Staples, Minnesota
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2023

	Sourcewell	Sourcewell Technology	Total
Operating Revenues			
Sales	\$ -	\$ 165,526	\$ 165,526
Cost of sales	-	140,454	140,454
Gross profit	-	25,072	25,072
Professional Services and Intergovernmental Revenue			
Software, license, and service fees	5,255,731	2,030,154	7,285,885
Intergovernmental revenue	1,763,532	21,978	1,785,510
Administrative fees	75,829,456	-	75,829,456
Other operating revenues	172,885	189,638	362,523
Total professional services and intergovernmental revenue	83,021,604	2,241,770	85,263,374
Total operating revenues	83,021,604	2,266,842	85,288,446
Operating Expenses			
Salaries and wages	24,492,378	1,448,407	25,940,785
Employee benefits	9,070,881	580,652	9,651,533
Actuarial pension adjustment	1,321,286	(599,874)	721,412
Professional services	16,872,363	880,179	17,752,542
Supplies and materials	2,244,263	146	2,244,409
Travel	1,823,450	58,209	1,881,659
Indirect costs	(229,061)	229,061	-
Depreciation and amortization	2,978,388	324,410	3,302,798
Other expenses	264,892	3,491,776	3,756,668
Total operating expenses	58,838,840	6,412,966	65,251,806
Operating Income (Loss)	24,182,764	(4,146,124)	20,036,640
Nonoperating Revenues (Expenses)			
Investment gain (loss)	7,770	2,508	10,278
Interest expense	(52,719)	-	(52,719)
Loss on disposal of capital assets	(43,261)	-	(43,261)
Total nonoperating revenues (expenses)	(88,210)	2,508	(85,702)
Income (Loss) Before Transfers	24,094,554	(4,143,616)	19,950,938
Transfers In	-	6,812,767	6,812,767
Transfers Out	(6,812,767)	-	(6,812,767)
Change in Net Position	17,281,787	2,669,151	19,950,938
Net Position (Deficit), Beginning of Year, as Restated (Note 10)	60,139,308	(2,669,151)	57,470,157
Net Position, End of Year	\$ 77,421,095	\$ -	\$ 77,421,095

Sourcewell
Staples, Minnesota
Statement of Cash Flows
Year Ended June 30, 2023

	Sourcewell	Sourcewell Technology	Total
Operating Activities			
Receipts from sales to customers	\$ 73,777,448	\$ 3,086,840	\$ 76,864,288
Receipts from state and federal aid	1,763,532	21,978	1,785,510
Payments to suppliers for goods and services	(18,600,960)	(2,865,767)	(21,466,727)
Payments made to employees	(33,291,489)	(2,519,428)	(35,810,917)
Payments for other operating expenses	(1,823,450)	(3,491,776)	(5,315,226)
Net cash from (used for) operating activities	<u>21,825,081</u>	<u>(5,768,153)</u>	<u>16,056,928</u>
Investing Activity			
Investment income	<u>7,770</u>	<u>2,508</u>	<u>10,278</u>
Noncapital Financing Activities			
Transfer from other funds	426,153	3,000,000	3,426,153
Transfer to other funds	(3,000,000)	(426,153)	(3,426,153)
Net cash (used for) from noncapital financing activities	<u>(2,573,847)</u>	<u>2,573,847</u>	<u>-</u>
Capital and Related Financing Activities			
Purchase of capital assets	(1,708,235)	-	(1,708,235)
Interest payments	(52,719)	-	(52,719)
Principal payments on leases, direct borrowings, and subscription-based IT liabilities	(2,083,176)	-	(2,083,176)
Net cash used for capital and related financing activities	<u>(3,844,130)</u>	<u>-</u>	<u>(3,844,130)</u>
Net Change in Cash and Investments	<u>15,414,874</u>	<u>(3,191,798)</u>	<u>12,223,076</u>
Cash and Investments, July 1	<u>45,160,794</u>	<u>3,191,798</u>	<u>48,352,592</u>
Cash and Investments, June 30	<u>\$ 60,575,668</u>	<u>\$ -</u>	<u>\$ 60,575,668</u>
Reconciliation of Operating Income (Loss) to Net Cash from (Used for) Operating Activities			
Operating income (loss)	\$ 24,182,764	\$ (4,146,124)	\$ 20,036,640
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities			
Depreciation and amortization	2,978,388	324,410	3,302,798
Changes in assets and liabilities			
Accounts receivable	(6,837,926)	(60,438)	(6,898,364)
Due from other governmental units	(6,247)	(17,603)	(23,850)
Prepaid items	(21,669)	20,922	(747)
Deferred outflows of resources	877,182	750,793	1,627,975
Accounts payable	572,753	(1,565,087)	(992,334)
Accrued payroll	(438,722)	(295,007)	(733,729)
Due to other governmental units	413	(13,553)	(13,140)
Unearned revenue	(636,451)	779,563	143,112
Compensated absences	533,570	(195,362)	338,208
Other post-employment benefits	(30,516)	-	(30,516)
Net pension liability	9,976,407	760,869	10,737,276
Deferred inflows of resources	(9,324,865)	(2,111,536)	(11,436,401)
Net cash from (used for) operating activities	<u>\$ 21,825,081</u>	<u>\$ (5,768,153)</u>	<u>\$ 16,056,928</u>
Schedule of Non-Cash Noncapital Financing Activities			
Transfer of non-cash assets and liabilities to dissolve Sourcewell Technology Fund	<u>\$ (4,238,920)</u>	<u>\$ 4,238,920</u>	<u>\$ -</u>

Sourcewell
Staples, Minnesota
Statement of Fiduciary Net Position
Year Ended June 30, 2023

	Better Health Collective
Assets	
Cash and cash equivalents	\$ 8,477,121
Receivables (net of allowance for uncollectibles):	
Member contribution	65,707
Pharmacy rebates	1,530,322
Total assets	10,073,150
Liabilities	
Estimated liability for reported and unreported loss and loss adjustment expense	3,857,825
Payable to claims administrator	36,571
Total liabilities	3,894,396
Net Position	
Restricted for other organization	\$ 6,178,754

Sourcewell
Staples, Minnesota
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2023

	Better Health Collective
Additions	
Contributions	
Member contributions earned	\$ 42,920,517
Less: reinsurance premiums ceded	(2,697,476)
Net contributions	40,223,041
Net investment loss	(47,254)
Miscellaneous income	23,135
Total additions	40,198,922
Deductions	
Net claims and claims adjustment expenses incurred	
Claims and claims adjustment expenses incurred	44,284,791
Reinsurance recoveries	(3,103,432)
Total claims and claims adjustment expenses incurred, net	41,181,359
Professional services	1,716,925
Affordable Care Act fees	304
Total deductions	42,898,588
Change in Net Position	(2,699,666)
Net Position, Beginning of Year, as Restated (Note 10)	8,878,420
Net Position, End of Year	\$ 6,178,754

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 services, teaching and learning services (including service for students with special talents and special needs), fiscal services, software and networking solutions, and cooperative purchasing services.

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

B. Reporting Entity

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

Component units are legally separate entities for which Sourcewell (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial burden or benefit with the potential component unit, or is fiscally depended upon by the potential component unit. Sourcewell Technology is reported as a blended component unit and ceased operations as of January 1, 2023, and the services were fully assumed by Sourcewell. The formal legal dissolution occurred on March 31, 2023.

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 funds:

Sourcewell – This fund is the operating fund of Sourcewell and is used to account for all operational activities of the entity 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.

Sourcewell Technology – This fund is used primarily to account for the revenues and expenses generated by providing networking and software solutions to governmental units. As of January 1, 2023, the assets and liabilities of this fund were transferred to the Enterprise Solutions fund and the fund was closed.

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

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. The 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 the Better Health Collective. These fees are reported as revenues of Sourcewell on the Statement of Revenues, Expenses, and Changes in Net Position, and deduction of the Better Health Collective on the Statement of Changes of Fiduciary Net Position.

E. Other Significant Accounting Policies

Cash and Investments

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

Receivables

The carrying amount of the receivables has been reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management determined that no allowance was necessary at June 30, 2023.

Receivables in the Enterprise Solutions fund are estimates for all administrative fees to be received subsequent to June 30 that relate to sales that occurred during the current fiscal year. These administrative fees are received on average 4 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 for public school purposes by Sourcewell, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 50 years. Land is not depreciated.

Right of 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 of 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

Vacation – Sourcewell compensates substantially all full-time employees for unused vacation upon termination. As of June 30, 2023, a liability has been recorded in the financial statements related to these compensated absences.

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

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.

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

Sourcewell has two items that qualify for reporting in this category on the statement of net position. Deferred outflows of resources related to other postemployment 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 position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Sourcewell has two types of items that qualify for reporting in this category. Deferred inflows related to pension and OPEB 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, 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.

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 2023.

Estimates

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

Change in Accounting Entity

As of July 1, 2022, Sourcewell has reclassified the Risk Management Fund as a fiduciary fund, the Better Health Collective Fund. Previously, the Risk Management Fund was reported as an enterprise fund. This reclassification better reflects the nature of the fund. See Note 10 for further discussion.

Implementation of GASB Statement No. 96

As of July 1, 2022, Sourcewell adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset -an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. As a result of implementing this standard Sourcewell recognized a right to use subscription asset and subscription liability of \$3,380,579 and \$2,805,124, respectively, as of July 1, 2022. Additionally, the beginning balances of prepaid items and equipment and software were reduced by \$521,375 and \$54,080, respectively, for items previously reported that were reclassified as right to use subscription assets. As a result of these adjustments there was no effect on beginning net position. The additional disclosures required by this standard are included in Notes 6 and 7.

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, 2023, the carrying amount of Sourcewell’s deposits was \$2,810,945 and the bank balance was \$3,347,941. Sourcewell’s deposits were secured by FDIC coverage of \$250,000 and pledged collateral of \$10,404,247.

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, 2023, 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	\$ 2,810,945	\$ 2,810,945	\$ -	\$ -	\$ -
Investments					
Money Market	10,544,725	10,544,725	-	-	-
U.S. Government Securities	28,159,719	-	8,677,312	11,266,017	8,216,390
Municipal Bonds	27,537,400	-	1,710,448	16,659,821	9,167,131
	<u>\$ 69,052,789</u>	<u>\$ 13,355,670</u>	<u>\$ 10,387,760</u>	<u>\$ 27,925,838</u>	<u>\$ 17,383,521</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, 2023:

- U.S. government securities of \$28,159,719 are valued using quoted market prices (Level 1 inputs)
- Municipal bonds of \$27,537,400 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, 2023, 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	\$ 60,575,668
Statement of fiduciary net position	<u>8,477,121</u>
	<u>\$ 69,052,789</u>

Note 3 - Due from other Governmental Units

Amounts receivable from other governments as of June 30, 2023, include:

Fund	Federal	Other	Total
Sourcewell	<u>\$ 101,038</u>	<u>384,482</u>	<u>\$ 485,520</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2023, is as follows:

	Balance July 1, 2022, as restated	Additions	Deletions	Balance June 30, 2023
Business-Type Activities				
Capital assets, not being depreciated/amortized				
Land	\$ 313,293	\$ -	\$ -	\$ 313,293
Work in progress	209,888	1,555,544	1,632,841	132,591
Total capital assets, not being depreciated	<u>523,181</u>	<u>1,555,544</u>	<u>1,632,841</u>	<u>445,884</u>
Capital assets being depreciated/amortized				
Buildings and improvements	10,990,551	882,926	-	11,873,477
Land improvements	348,967	-	-	348,967
Equipment and software	12,273,047	745,012	-	13,018,059
Right-to-use assets	1,385,490	-	43,261	1,342,229
Right-to-use subscription-based IT assets	3,380,579	157,594	-	3,538,173
Total capital assets being depreciated/amortized	<u>28,378,634</u>	<u>1,785,532</u>	<u>43,261</u>	<u>30,120,905</u>
Less accumulated depreciation/amortization for				
Buildings and improvements	2,509,525	366,730	-	2,876,255
Land improvements	142,105	23,264	-	165,369
Equipment and software	7,927,102	1,305,761	-	9,232,863
Right-to-use assets	402,779	414,723	-	817,502
Right-to-use subscription-based IT assets	-	1,192,320	-	1,192,320
Total accumulated depreciation/amortization	<u>10,981,511</u>	<u>3,302,798</u>	<u>-</u>	<u>14,284,309</u>
Capital assets being depreciated, net	<u>17,397,123</u>	<u>(1,517,266)</u>	<u>43,261</u>	<u>15,836,596</u>
Business-Type Activities Capital Assets, Net	<u>\$ 17,920,304</u>	<u>\$ 38,278</u>	<u>\$ 1,676,102</u>	<u>\$ 16,282,480</u>

Depreciation/amortization expense for the year ended June 30, 2023, was charged to the following functions/programs:

Business-type activities	
Sourcewell	\$ 2,978,388
Sourcewell Technology	<u>324,410</u>
Total depreciation/amortization expense	<u>\$ 3,302,798</u>

Note 5 - Leases Payable

Sourcewell has entered into lease agreements for a building, postage machine, printers, and a vehicle. Sourcewell is required to make principal and interest payments through September 2026. The lease liability was valued using discount rates of 2.29%, Sourcewell's historical five-year average investment rate of return at the inception of the leases. Sourcewell recognized interest expense of \$9,205 related to leases.

The future principal and interest lease payments as of June 30, 2023, were as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 307,678	\$ 6,456
2025	102,968	545
2026	3,153	21
2027	792	1
	<u>\$ 414,591</u>	<u>\$ 7,023</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 March 2026. The subscription liability was valued using a discount rate of 0.76% based on Sourcewell's incremental borrowing rate at the inception of the subscriptions. Sourcewell recognized interest expense of \$2,729 related to SBITAs.

Remaining principal and interest payments on subscriptions are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,104,827	\$ 1,110
2025	323,590	410
2026	323,795	205
	<u>\$ 1,752,212</u>	<u>\$ 1,725</u>

Note 7 - Long Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2023, are as follows:

	Balance July 1, 2022, as restated	Additions	Deletions	Balance June 30, 2023	Due Within One Year
Business-Type Activities					
Direct borrowing payable	\$ 1,512,433	\$ -	\$ 365,365	\$ 1,147,068	\$ 373,732
Leases payable	1,079,490	-	664,899	414,591	307,678
Subscription-based IT agreements payable	2,805,124	-	1,052,912	1,752,212	1,104,827
Compensated absences	1,493,640	2,367,328	2,029,120	1,831,848	1,831,848
Total business-type activities long term liabilities	<u>\$ 6,890,687</u>	<u>\$ 2,367,328</u>	<u>\$ 4,112,296</u>	<u>\$ 5,145,719</u>	<u>\$ 3,618,085</u>

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, 2023, was \$1,912,433 and total accumulated amortization on this asset as of June 30, 2023, was \$509,982

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

Years ending June 30,	Principal	Interest
2024	\$ 373,732	\$ 26,268
2025	382,291	17,709
2026	391,045	8,955
	<u>\$ 1,147,068</u>	<u>\$ 52,932</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 consists of vested vacation as discussed in Note 1. These amounts are paid out of the Sourcewell fund.

Note 8 - Other Post-Employment Benefits

OPEB Summary Schedules

Sourcewell and the blended component unit, Sourcewell Technology, have separate other post-employment benefit actuarial valuations performed due to having unique employer identification numbers, thereby requiring note disclosures by entity. As Sourcewell Technology was dissolved into Sourcewell during the current year, both plans are recorded within the Sourcewell fund. A summary of the plans is as follows:

	Sourcewell	Sourcewell Technology	Total
Other Post-Employment Benefits Liability	\$ 447,178	\$ 29,532	\$ 476,710
Deferred Outflows of Resources	46,038	3,568	49,606
Deferred Inflows of Resources	110,157	28,203	138,360

A. Plan Descriptions

Sourcewell

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 Health Partners. The plan does not issue a publicly available financial report. No assets are accumulated in a trust.

Sourcewell Technology

The Sourcewell Technology 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 Technology’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. Benefit provisions are established through negotiations by Sourcewell Technology and are renegotiated at the end of each contract period. Medical coverage is administered by Health Partners. 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 \$944 for single and \$2,124 for family coverage for Sourcewell and \$844 for single and \$2,196 for family coverage for Sourcewell Technology. 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 for Sourcewell or Sourcewell Technology.

C. Employees Covered by Benefit Terms

Sourcewell

At the valuation date of July 1, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	220
	221

Sourcewell Technology

At the valuation date of July 1, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	31
	31

D. Total OPEB Liability

Sourcewell and Sourcewell Technology's total OPEB liabilities of \$447,178 and \$29,532, respectively, were measured as of July 1, 2022, and were determined by actuarial valuations as of July 1, 2022, and July 1, 2021, respectively.

E. Actuarial Assumptions

Sourcewell

The total OPEB liability in the July 1, 2022, 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	3.80 percent	
Healthcare Cost Trend Rates	6.50 percent in 2022, 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 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, 2022, valuation were based on inputs from a variety of published sources of historical and projected future financial data. The rates for TRA eligible employees 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.

There were no changes in plan provisions made for the year ending June 30, 2023.

The following changes in assumptions were made for the year ending June 30, 2023:

- 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%.

Sourcewell Technology

The total OPEB liability in the July 1, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00 percent	
Salary Increases	Service graded table, based on years of service	
Discount Rate	2.10 percent	
Healthcare Cost Trend Rates	6.25 percent in 2022, grading to 5.00 percent over the next 5 years and then to 4.00 percent over the next 48 years	
Retiree Plan Participation	Future retirees electing coverage:	
	Pre-65 subsidy available:	N/A
	Pre-65 subsidy not available:	25%
Percent of Married Retirees electing spouse coverage	Percent future retirees electing pre-65 coverage:	
	Spouse subsidy available:	N/A
	Spouse subsidy not available:	10%

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

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2021, valuation were based on inputs from a variety of published sources of historical and projected future financial data.

There were no changes in plan provisions or actuarial assumptions made for the year ending June 30, 2023.

F. Changes in the Total OPEB Liability

Sourcewell

Balance at July 1, 2022		\$	491,374
Changes from the Prior Year:			
Service cost			73,780
Interest cost			11,763
Assumption changes			(37,925)
Differences between expected and actual experience			(81,440)
Benefit payments			(10,374)
			(44,196)
Net Change			(44,196)
Balance at June 30, 2023		\$	447,178

Sourcewell Technology

Balance at July 1, 2022		\$	24,795
Changes from the Prior Year:			
Service cost			5,190
Interest cost			618
Benefit payments			(1,071)
			4,737
Net Change			4,737
Balance at June 30, 2023		\$	29,532

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

Sourcewell

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	2.80%	3.80%	4.80%
Total OPEB Liability	\$ 476,119	\$ 447,178	\$ 419,552

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Medical Trend Rate	5.50%, 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	\$ 433,633	\$ 447,178	\$ 559,952

Sourcewell Technology

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	2.10%	3.10%	4.10%
Total OPEB Liability	\$ 30,461	\$ 29,532	\$ 28,461

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Medical Trend Rate	5.25%, decreasing to 4.00% over 5 years, then to 3.00% over the next 48 years	6.25%, decreasing to 5.00% over 5 years, then to 4.00% over the next 48 years	7.25%, decreasing to 6.00% over 5 years, then to 5.00% over the next 48 years
Total OPEB Liability	\$ 27,016	\$ 29,532	\$ 32,439

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

Sourcewell

For the year ended June 30, 2023, Sourcewell recognized OPEB expense of \$71,536. At June 30, 2023, Sourcewell reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Losses/Gains	\$ 24,323	\$ 70,080
Assumption Changes	7,638	40,077
Employer Contributions Made after The Measurement Date	<u>14,077</u>	<u>-</u>
	<u>\$ 46,038</u>	<u>\$ 110,157</u>

The \$14,077 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Years Ended June 30,</u>	<u>OPEB Expense Amount</u>
2024	\$ (14,003)
2025	(12,258)
2026	(13,251)
2027	(18,794)
2028	(19,890)

Sourcewell Technology

For the year ended June 30, 2023, Sourcewell Technology recognized OPEB revenue of \$10,945. At June 30, 2023, Sourcewell Technology reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Gains	\$ -	\$ 25,362
Assumption Changes	655	2,841
Employer Contributions Made after The Measurement Date	2,913	-
	\$ 3,568	\$ 28,203

The \$2,913 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, 2024. 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
2024	\$ (16,753)
2025	(10,795)

Note 9 - Defined Benefit Pension Plans

Substantially all employees of Sourcewell and its blended component unit, Sourcewell Technology, 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.

Sourcewell and its blended component unit, Sourcewell Technology, have unique employer unit numbers for the PERA and TRA pension plans, thereby requiring note disclosures by entity. As Sourcewell Technology has been dissolved into Sourcewell during the current year, all amounts are presented within the Sourcewell fund. The following schedules are intended to assist in reconciling the entity note disclosures to the financial statements.

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

	Sourcewell		Sourcewell Technology		Total
	PERA	TRA	PERA	TRA	
Net Pension Liability	\$ 16,917,190	\$ 2,914,719	\$ 3,247,214	\$ 760,710	\$ 23,839,833
Deferred Outflows of Resources	7,386,936	1,905,603	1,288,670	206,818	10,788,027
Deferred Inflows of Resources	224,802	15,814	1,649,008	181,350	2,070,974

Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Descriptions

Sourcewell and Sourcewell Technology participate 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). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan covers certain full time and part-time employees of Sourcewell and Sourcewell Technology. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. 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. 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 reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contribution Rate

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and Sourcewell and Sourcewell Technology were required to 7.50 percent for Coordinated Plan members. Sourcewell and Sourcewell Technology's contributions to the General Employees Fund for the year ended June 30, 2023, were \$1,753,532 and \$86,855, respectively. Sourcewell and Sourcewell Technology's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At June 30, 2023, Sourcewell and Sourcewell Technology reported liabilities of \$16,917,190 and \$3,247,214, respectively, for their proportionate shares of the General Employees Fund's net pension liability. Sourcewell and Sourcewell Technology's net pension liabilities 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 shares of the net pension liability associated with Sourcewell and Sourcewell Technology totaled \$496,047 and \$95,194, respectively.

The net pension liabilities were measured as of June 30, 2022, and the total pension liability used to calculate the net pension liabilities was determined by an actuarial valuation as of that date. Sourcewell and Sourcewell Technology's proportionate shares of the net pension liability were based on their contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. Sourcewell's proportionate share was 0.2500 percent at the end of the measurement period and 0.1969 percent at the beginning of the period. At June 30, 2022, Sourcewell Technology's proportionate share was 0.0410 percent at the end of the measurement period and 0.0663 percent at the beginning of the period.

Sourcewell's proportionate share of net pension liability	\$ 16,917,190
State of Minnesota's proportionate share of the net pension liability associated with Sourcewell	<u>496,047</u>
Total	<u><u>\$ 17,413,237</u></u>
Sourcewell Technology's proportionate share of net pension liability	\$ 3,247,214
State of Minnesota's proportionate share of the net pension liability associated with Sourcewell Technology	<u>95,194</u>
Total	<u><u>\$ 3,342,408</u></u>

For the year ended June 30, 2023, Sourcewell and Sourcewell Technology recognized pension expense of \$2,798,262 and \$232,791, respectively, for their proportionate shares of General Employees Fund's pension expense. In addition, Sourcewell and Sourcewell Technology recognized \$74,121 and \$14,224, respectively, as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

Sourcewell

At June 30, 2023, 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	\$ 141,305	\$ 165,596
Changes in Actuarial Assumptions	3,538,371	59,206
Net Collective Difference between Projected and Actual investment earnings	707,674	-
Changes in Proportion	1,246,054	-
Contributions Paid to PERA Subsequent to The Measurement Date	<u>1,753,532</u>	<u>-</u>
Total	<u>\$ 7,386,936</u>	<u>\$ 224,802</u>

The \$1,753,532 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, 2024. 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>
2024	\$ 2,176,001
2025	1,900,395
2026	(197,701)
2027	1,529,907

Sourcewell Technology

At June 30, 2023, Sourcewell Technology 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	\$ 27,123	\$ 56,328
Changes in Actuarial Assumptions	1,174,692	22,356
Net Collective Difference between Projected and Actual investment earnings	-	624,229
Changes in Proportion	-	946,095
Contributions Paid to Pera Subsequent to The Measurement Date	<u>86,855</u>	<u>-</u>
Total	<u>\$ 1,288,670</u>	<u>\$ 1,649,008</u>

The \$86,855 reported as deferred outflows of resources related to pensions resulting from Sourcewell Technology contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. 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>
2024	\$ (88,023)
2025	(24,032)
2026	(628,800)
2027	293,662

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 in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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 most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

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.

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 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

	General Employees Fund	
1% Lower	6.50%	\$ 26,721,589
Current Discount Rate	7.50%	\$ 16,917,190
1% Higher	8.50%	\$ 8,876,071

The following presents Sourcewell Technology'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 Technology'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

	General Employees Fund	
1% Lower	6.50%	\$ 5,129,144
Current Discount Rate	7.50%	\$ 3,247,214
1% Higher	8.50%	\$ 1,703,740

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 or coverage through the Defined Contribution Plan (DCR) administered by Minnesota State.

B. Benefits Provided

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

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

Tier I Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are 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

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ending June 30, 2021, June 30, 2022, and June 30, 2023, were:

	June 30, 2021		June 30, 2022		June 30, 2023	
	Employees	Employers	Employees	Employers	Employees	Employers
Basic	11.00%	12.13%	11.00%	12.34%	11.00%	12.55%
Coordinated	7.50%	8.13%	7.50%	8.34%	7.50%	8.55%

The following is a reconciliation of employer contributions in TRA’s fiscal year 2022 Comprehensive Annual Financial Report “Statement of Changes in Fiduciary Net Position” to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	<i>in thousands</i>
Employer contributions reported in TRA's Comprehensive Annual Financial Report, Statement of Changes in Fiduciary Net Position	\$ 482,679
Employer contributions not related to future contribution efforts	(2,178)
TRA's contributions not included in allocation	<u>(572)</u>
Total employer contributions	479,929
Total non-employer contributions	<u>35,590</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 515,519</u></u>

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

D. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2022
Measurement Date	June 30, 2022
Experience Study	June 28, 2019 (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	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

*The assumptions prescribed are based on the experience study dated June 28, 2019. 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%	5.10%
International Equity	16.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	25.0%	0.75%
Total	100.0%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is six years. The *Difference between Expected and Actual Experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments* is five years as required by GASB 68.

Changes in actuarial assumptions since the 2021 valuation

- None

E. Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2023, Sourcewell and Sourcewell Technology reported liabilities of \$2,914,719 and \$760,710, respectively, for their proportionate shares of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Sourcewell and Sourcewell Technology's proportions of the net pension liability were based on their contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. Sourcewell's proportionate share was 0.0364 percent at the end of the measurement period and 0.0361 percent for the beginning of the year. Sourcewell Technology's proportionate share was 0.0095 percent at the end of the measurement period and 0.0095 percent for the beginning of the year.

Sourcewell

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

Sourcewell's Proportionate Share of Net Pension Liability	<u>\$ 2,914,719</u>
States Proportionate Share of The Net Pension Liability Associated with Sourcewell	<u>\$ 216,156</u>

For the year ended June 30, 2023, Sourcewell recognized pension expense of \$436,581. It also recognized \$29,722 as an increase to pension expense for the support provided by direct aid.

At June 30, 2023, Sourcewell had deferred 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	\$ 41,211	\$ 15,814
Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments	81,455	-
Changes of Assumptions	463,039	-
Changes in Proportion	1,024,763	-
Sourcewell's Contributions to TRA Subsequent to The Measurement Date	<u>295,135</u>	<u>-</u>
Total	<u>\$ 1,905,603</u>	<u>\$ 15,814</u>

The \$295,135 reported as deferred outflows of resources related to pensions resulting from Sourcewell contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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>
2024	\$ 410,029
2025	410,029
2026	358,766
2027	408,577
2028	7,253

Sourcewell Technology

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

Sourcewell Technology's Proportionate Share of Net Pension Liability	<u>\$ 760,710</u>
States Proportionate Share of The Net Pension Liability Associated with Sourcewell Technology	<u>\$ 56,388</u>

For the year ended June 30, 2023, Sourcewell Technology recognized pension revenue of \$113,372. It also recognized \$7,754 as an increase to pension expense for the support provided by direct aid.

At June 30, 2023, Sourcewell Technology had deferred 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	\$ 11,216	\$ 6,713
Net Difference between Projected and Actual Investment earnings on pension plan investments	21,556	-
Changes of Assumptions	121,868	164,302
Changes in Proportion	27,788	10,335
Sourcewell Technology's Contributions to Tra Subsequent to The measurement date	<u>24,390</u>	<u>-</u>
Total	<u>\$ 206,818</u>	<u>\$ 181,350</u>

The \$24,390 reported as deferred outflows of resources related to pensions resulting from Sourcewell Technology contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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>
2024	\$ (118,992)
2025	16,675
2026	5,239
2027	97,620
2028	536

G. Pension Liability Sensitivity

The following presents Sourcewell and Sourcewell Technology's proportionate shares of the net pension liability calculated using the discount rate of 7.00 percent as well what the net pension liabilities would be if they were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) 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	6.50%	7.50%	8.50%
Sourcewells Proportionate Share of the TRA net pension liability	\$ 4,594,896	\$ 2,914,719	\$ 1,537,498
	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
TRA discount rate	6.50%	7.50%	8.50%
Sourcewell Technology's proportionate share of the TRA net pension liability	\$ 1,199,217	\$ 760,710	\$ 701,270

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

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at <https://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 - Restatement of Beginning Net Position

Change in Reporting Entity

As of July 1, 2022, Sourcewell has reclassified the Risk Management proprietary fund to a custodial fund. This resulted from a newly formed legal entity called the Better Health Collective, which now is a standalone entity operating the risk management activities that were previously operated by Sourcewell. This constitutes a change in reporting entity and the effects of the restatement on net position as previously reported are as follows:

	<u>Business-Type Activities</u>	<u>Better Health Collective Custodial Fund</u>	<u>Risk Management Proprietary Fund</u>
Net Position at June 30, 2022, as Previously Reported	\$ 66,348,577	\$ -	\$ 8,878,420
Reclassification of Risk Management Proprietary Fund to the Better Health Collective Custodial Fund	<u>(8,878,420)</u>	<u>8,878,420</u>	<u>(8,878,420)</u>
Net Position at July 1, 2022, as Adjusted	<u><u>\$ 57,470,157</u></u>	<u><u>\$ 8,878,420</u></u>	<u><u>\$ -</u></u>

Note 11 - Interfund Transfers

During the first six months of the year ended June 30, 2023, \$3,000,000 was transferred from the Sourcewell Fund to the Sourcewell Technology Fund to fund Sourcewell Technology's operating deficit. On January 1, 2023, \$3,812,767 was transferred from the Sourcewell Fund to the Sourcewell Technology Fund to dissolve the Sourcewell Technology Fund.

Note 12 - Joint Powers Agreement

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

Note 13 - Related Party Transactions

Sourcewell and Brightworks (formerly Metro ECSU) are governing members of a Joint Powers Board governing over Sourcewell Technology, a blended component unit of Sourcewell that was dissolved as of January 1, 2023. Brightworks is an educational service cooperative in Arden Hills, Minnesota, that provides various educational services to Sourcewell. During the first six months of the year ended June 30, 2023, Sourcewell made payments totaling \$142,706 to Brightworks for various educational services.

Note 14 - 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 and Sourcewell Technology expect such amounts, if any, to be immaterial.

Construction Commitments

Sourcewell has active construction projects as of June 30, 2023. The projects include various software implementations and building projects with construction costs of \$132,591 reported as construction in progress with remaining commitments of \$301,303 as of June 30, 2023.

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, 2023, 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, 2023

Sourcewell

Staples, Minnesota

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

	2023	2022	2021	2020	2019	2018
Service Cost	\$ 73,780	\$ 78,619	\$ 73,971	\$ 57,654	\$ 53,450	\$ 37,868
Interest Cost	11,763	11,455	11,469	10,872	8,845	6,243
Assumption Changes	(37,925)	6,287	(15,403)	5,979	7,450	(5,424)
Plan Changes	-	-	-	-	16,963	-
Differences between Expected and Actual Experience	(81,440)	-	48,650	-	(13,309)	-
Benefit Payments	(10,374)	(7,282)	(24,615)	(38,200)	(16,197)	(2,765)
Net Change in Total OPEB Liability	(44,196)	89,079	94,072	36,305	57,202	35,922
Total OPEB Liability - Beginning	491,374	402,295	308,223	271,918	214,716	178,794
Net OPEB Liability, End of Year	<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	\$ 20,070,375	\$ 15,935,560	\$ 15,471,417	\$ 11,699,462	\$ 11,358,701	\$ 6,879,565
District's Total OPEB Liability as A Percentage of covered payroll	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.

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%.

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

	2023	2022	2021	2020	2019	2018
Service Cost	\$ 5,190	\$ 5,039	\$ 10,081	\$ 9,787	\$ 8,812	\$ 8,555
Interest Cost	618	2,095	1,951	2,829	2,569	2,489
Assumption Changes	-	1,311	-	(14,205)	-	-
Differences between Actual and Expected Experience	-	(44,497)	-	(15,575)	-	-
Benefit Payments	(1,071)	(3,351)	(1,364)	(5,413)	(4,004)	(13,821)
Net Change in Total OPEB Liability	4,737	(39,403)	10,668	(22,577)	7,377	(2,777)
Total OPEB Liability - Beginning	24,795	64,198	53,530	76,107	68,730	71,507
Net OPEB Liability, End of Year	<u>\$ 29,532</u>	<u>\$ 24,795</u>	<u>\$ 64,198</u>	<u>\$ 53,530</u>	<u>\$ 76,107</u>	<u>\$ 68,730</u>
Covered Payroll	\$ 3,226,198	\$ 3,132,231	\$ 6,185,259	\$ 6,005,106	\$ 6,249,847	\$ 6,067,813
District's Total OPEB Liability as A Percentage of covered payroll	0.92%	0.79%	1.04%	0.89%	1.22%	1.13%

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

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

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

2023 Changes

There were no changes in benefits or actuarial assumptions.

2022 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-2020 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50% to 2.00%.
- The discount rate was changed from 3.10% to 2.10%.

2021 Changes

There were no changes in benefits or actuarial assumptions.

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 to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 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 3.40% to 3.10%.
- The retiree plan participation percentage was reduced from 30% to 25%.

2019 Changes

There were no changes in benefits or actuarial assumptions.

Sourcewell
Staples, Minnesota
Schedule of Employer's Share of Net Pension Liability
Sourcewell
June 30, 2023

**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	6/30/2022	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%
PERA	6/30/2014	0.0687%	\$ 3,227,182	N/A	\$ 3,227,182	\$ 3,607,273	89.5%	78.8%
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%	78.1%
TRA	6/30/2018	0.0194%	\$ 1,217,012	\$ 114,359	\$ 1,331,371	\$ 1,024,674	118.8%	78.1%
TRA	6/30/2017	0.0139%	\$ 1,217,012	\$ 114,359	\$ 1,331,371	\$ 737,900	164.9%	51.6%
TRA	6/30/2016	0.0103%	\$ 2,456,796	\$ 245,862	\$ 2,702,658	\$ 535,301	459.0%	44.9%
TRA	6/30/2015	0.0096%	\$ 593,855	\$ 72,994	\$ 666,849	\$ 492,907	120.5%	76.8%
TRA	6/30/2014	0.0093%	\$ 428,537	\$ 30,286	\$ 458,823	\$ 467,255	91.7%	81.5%

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

Sourcewell
Staples, Minnesota
Schedule of Employer's Contributions
Sourcewell
June 30, 2023

**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	6/30/2023	\$ 1,753,532	\$ 1,753,532	\$ -	\$ 23,380,427	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%
PERA	6/30/2015	\$ 336,508	\$ 336,508	\$ -	\$ 4,486,773	7.5%
TRA	6/30/2023	\$ 295,135	\$ 295,135	\$ -	\$ 3,451,871	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%
TRA	6/30/2015	\$ 36,968	\$ 36,968	\$ -	\$ 492,907	7.5%

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

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

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

Pension Plan	Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (c) (a+b)	Employer's Covered Payroll (d)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2022	0.0410%	\$ 3,247,214	\$ 95,194	\$ 3,342,408	\$ 2,887,283	112.5%	76.7%
PERA	6/30/2021	0.0663%	\$ 2,831,307	\$ 86,431	\$ 2,917,738	\$ 4,482,778	63.2%	87.0%
PERA	6/30/2020	0.0694%	\$ 4,160,847	\$ 128,234	\$ 4,289,081	\$ 4,648,933	89.5%	79.1%
PERA	6/30/2019	0.0725%	\$ 4,008,363	\$ 124,661	\$ 4,133,024	\$ 4,729,720	84.7%	80.2%
PERA	6/30/2018	0.0837%	\$ 4,643,333	\$ 152,406	\$ 4,795,739	\$ 5,629,627	82.5%	79.5%
PERA	6/30/2017	0.1213%	\$ 7,743,712	\$ 97,367	\$ 7,841,079	\$ 7,814,120	99.1%	75.9%
PERA	6/30/2016	0.1203%	\$ 9,767,764	\$ 127,601	\$ 9,895,365	\$ 7,477,040	130.6%	68.9%
PERA	6/30/2015	0.1385%	\$ 7,177,790	N/A	\$ 7,177,790	\$ 8,004,987	89.7%	78.2%
PERA	6/30/2014	0.1562%	\$ 7,337,493	N/A	\$ 7,337,493	\$ 8,197,704	89.5%	78.8%
TRA	6/30/2022	0.0095%	\$ 760,710	\$ 56,388	\$ 817,098	\$ 584,676	130.1%	76.2%
TRA	6/30/2021	0.0095%	\$ 415,748	\$ 35,060	\$ 450,808	\$ 568,549	73.1%	86.6%
TRA	6/30/2020	0.0096%	\$ 709,261	\$ 59,412	\$ 768,673	\$ 559,596	126.7%	75.5%
TRA	6/30/2019	0.0096%	\$ 611,906	\$ 53,895	\$ 665,801	\$ 544,358	112.4%	78.1%
TRA	6/30/2018	0.0097%	\$ 608,999	\$ 57,180	\$ 666,179	\$ 535,707	113.7%	78.1%
TRA	6/30/2017	0.0116%	\$ 2,315,570	\$ 223,463	\$ 2,539,033	\$ 622,307	372.1%	51.6%
TRA	6/30/2016	0.0155%	\$ 3,697,120	\$ 372,056	\$ 4,069,176	\$ 804,507	459.6%	44.9%
TRA	6/30/2015	0.0141%	\$ 872,224	\$ 106,787	\$ 979,011	\$ 715,933	121.8%	76.8%
TRA	6/30/2014	0.0150%	\$ 691,189	\$ 48,760	\$ 739,949	\$ 685,937	100.8%	81.5%

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

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

**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	6/30/2023	\$ 86,855	\$ 86,855	\$ -	\$ 1,158,067	7.5%
PERA	6/30/2022	\$ 216,546	\$ 216,546	\$ -	\$ 2,887,283	7.5%
PERA	6/30/2021	\$ 336,208	\$ 336,208	\$ -	\$ 4,482,778	7.5%
PERA	6/30/2020	\$ 348,670	\$ 348,670	\$ -	\$ 4,648,933	7.5%
PERA	6/30/2019	\$ 354,729	\$ 354,729	\$ -	\$ 4,729,720	7.5%
PERA	6/30/2018	\$ 422,222	\$ 422,222	\$ -	\$ 5,629,627	7.5%
PERA	6/30/2017	\$ 586,059	\$ 586,059	\$ -	\$ 7,814,120	7.5%
PERA	6/30/2016	\$ 560,778	\$ 560,778	\$ -	\$ 7,477,040	7.5%
PERA	6/30/2015	\$ 600,374	\$ 600,374	\$ -	\$ 8,004,987	7.5%
TRA	6/30/2023	\$ 24,390	\$ 24,390	\$ -	\$ 285,263	8.6%
TRA	6/30/2022	\$ 48,762	\$ 48,762	\$ -	\$ 584,676	8.3%
TRA	6/30/2021	\$ 46,223	\$ 46,223	\$ -	\$ 568,549	8.1%
TRA	6/30/2020	\$ 44,320	\$ 44,320	\$ -	\$ 559,596	7.9%
TRA	6/30/2019	\$ 41,970	\$ 41,970	\$ -	\$ 544,358	7.7%
TRA	6/30/2018	\$ 40,178	\$ 40,178	\$ -	\$ 535,707	7.5%
TRA	6/30/2017	\$ 46,673	\$ 46,673	\$ -	\$ 622,307	7.5%
TRA	6/30/2016	\$ 60,338	\$ 60,338	\$ -	\$ 804,507	7.5%
TRA	6/30/2015	\$ 53,695	\$ 53,695	\$ -	\$ 715,933	7.5%

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

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

PERA

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

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.
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- 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 of 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, 2023

Sourcewell

Staples, Minnesota

Sourcewell
Staples, Minnesota
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of the Treasury <i>Passed through Minnesota Department of Education:</i> COVID-19 Coronavirus State and Local Fiscal Recovery	21.027C	0924-83-000 Formula - 166	\$ 2,212
Department of Education <i>Passed through Minnesota Department of Education:</i> Special Education Cluster (IDEA)			
Special Education Grants to States - Regional Low Incidence	84.027A	0924-83-000 Formula - 421	\$ 560,952
Special Education Grants to States - CSPD	84.027A	0924-83-000 Formula - 432	167,358
Special Education Preschool Grants - Centers of Excellence CSPD	84.173A	0924-83-000 Formula - 430	<u>100,682</u>
Total Special Education Cluster (IDEA)			\$ 828,992
Special Education Grants for Infants and Families - Centers of Excellence CSPD	84.181A	0924-83-000 Formula - 446	<u>110,399</u>
Total Department of Education			939,391
Department of Health and Human Services <i>Passed through Minnesota Department of Education:</i> Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	0924-83-000 Formula - 611	4,000
<i>Passed through South Central Service Cooperative</i> COVID-19 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	0924-83-000 Formula - 699	<u>57,115</u>
Total Department of Health and Human Services			<u>61,115</u>
Total Federal Financial Assistance			<u>\$ 1,002,718</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal funding activity of Sourcewell under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Sourcewell, it is not intended to and does not present the financial position, changes in net position, or cash flows of Sourcewell.

Note 2 - Summary of Significant Accounting Policies

Expenditures in the schedule of expenditures of federal awards are reported on the full accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Organization does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

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

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$83,029,374	\$83,029,370 \$4		Total Revenue	\$0	\$0	\$0
Total Expenditures	\$58,934,820	\$57,569,605 \$1,365,215		Total Expenditures	\$0	\$0	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$12,968,609	\$13,174,438 (\$205,829)		4.60 Non Spendable Fund Balance	\$0	\$0	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
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	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.13 Funded by COP/FP	\$0	\$0	\$0	<i>Unassigned:</i>			
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			
4.24 Operating Capital	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	<i>Non Spendable:</i>			
4.28 Learning & Development	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.33 Maximum Effort Loan Aid	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.41 Basic Skills Programs	\$0	\$0	\$0	<i>Restricted:</i>			
4.48 Achievement and Integration	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.49 Safe Schools Levy	\$0	\$0	\$0	<i>Unassigned:</i>			
4.51 QZAB Payments	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	08 TRUST			
4.59 Basic Skills Extended Time	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.67 LTFM	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.72 Medical Assistance	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
<i>Restricted:</i>				4.01 Student Activities	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	4.02 Scholarships	\$0	\$0	\$0
4.75 Title VII Impact Aid	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.76 Payments in Lieu of Taxes	\$0	\$0	\$0				
<i>Committed:</i>				18 CUSTODIAL			
4.18 Committed for Separation	\$0	\$0	\$0	Total Revenue	\$40,198,922	\$40,198,922 \$0	\$0
4.61 Committed Fund Balance	\$0	\$0	\$0	Total Expenditures	\$42,898,588	\$42,898,588 \$0	\$0
<i>Assigned:</i>				<i>Restricted / Reserved:</i>			
4.62 Assigned Fund Balance	\$0	\$0	\$0	4.01 Student Activities	\$0	\$0	\$0
<i>Unassigned:</i>				4.02 Scholarships	\$0	\$0	\$0
4.22 Unassigned Fund Balance	\$64,452,486	\$79,934,901 (\$15,482,415)		4.48 Achievement and Integration	\$0	\$0	\$0
				4.64 Restricted Fund Balance	\$6,178,754	\$6,178,754 \$0	\$0
02 FOOD SERVICES				20 INTERNAL SERVICE			
Total Revenue	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
<i>Non Spendable:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
<i>Restricted / Reserved:</i>				25 OPEB REVOCABLE TRUST			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
<i>Restricted:</i>				Total Expenditures	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	\$0	\$0	45 OPEB IRREVOCABLE TRUST			
				Total Revenue	\$0	\$0	\$0
04 COMMUNITY SERVICE				Total Expenditures	\$0	\$0	\$0
Total Revenue	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0				
<i>Non Spendable:</i>				47 OPEB DEBT SERVICE			
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
<i>Restricted / Reserved:</i>				Total Expenditures	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	<i>Non Spendable:</i>			
4.31 Community Education	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.32 E.C.F.E	\$0	\$0	\$0	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.44 School Readiness	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.47 Adult Basic Education	\$0	\$0	\$0	<i>Unassigned:</i>			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$0	\$0	\$0				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	\$0	\$0				

Sourcewell
Staples, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Sourcewell Technology
Year Ended June 30, 2023

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$2,269,350	<u>\$2,269,351</u>	<u>(\$1)</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$6,412,966	<u>\$7,012,840</u>	<u>(\$599,874)</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>	4.13 Funded by COP/FP	\$0	<u>\$0</u>	<u>\$0</u>
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Funded by COP/FP	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>				
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>	07 DEBT SERVICE			
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe Schools Levy	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
<i>Restricted:</i>				4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Committed:</i>				18 CUSTODIAL			
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>				<i>Restricted / Reserved:</i>			
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
				4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
02 FOOD SERVICES							
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>	20 INTERNAL SERVICE			
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$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>	25 OPEB REVOCABLE TRUST			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
				45 OPEB IRREVOCABLE TRUST			
04 COMMUNITY SERVICE				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	47 OPEB DEBT SERVICE			
<i>Restricted / Reserved:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.32 E. C. F. E.	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.44 School Readiness	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
<i>Restricted:</i>				4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.64 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>				

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.

Sourcewell

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

Audit (GAAP) Expenses		\$ 58,934,820
Reconciling Items		
Pension adjustment	\$ (1,321,286)	
OPEB adjustment	(43,925)	
Rounding difference	(4)	
Total reconciling items	(1,365,215)	(1,365,215)
UFARS Expenditures		\$ 57,569,605
Audit (GAAP) Net Position		\$ 77,421,095
Reconciling Items		
Deferred outflows of resources	(10,837,633)	
Net pension liability	23,839,833	
Net OPEB liability	476,710	
Deferred inflows of resources	2,209,334	
Total reconciling items	15,688,244	15,688,244
UFARS Fund Balance		
Nonspendable	\$ 13,174,438	
Unassigned	79,934,901	
Total	93,109,339	\$ 93,109,339

Sourcewell Technology (consolidated with Sourcewell throughout financial statements)

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

Audit (GAAP) Expenses		\$ 6,412,966
Reconciling Items		
Pension adjustment	599,874	599,874
UFARS Expenditures		\$ 7,012,840



Additional Reports
June 30, 2023

Sourcewell
Staples, Minnesota



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

To the Board of Directors of
Sourcewell
Staples, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of each major fund and the aggregate remaining fund information of Sourcewell, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Sourcewell’s basic financial statements and have issued our report thereon dated December 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sourcewell's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sourcewell’s internal control. Accordingly, we do not express an opinion on the effectiveness of Sourcewell’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Sourcewell's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Sourcewell's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. Sourcewell's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
December 15, 2023



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

To the Board of Directors of
Sourcewell
Staples, Minnesota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Sourcewell’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Sourcewell’s major federal program for the year ended June 30, 2023. Sourcewell’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Sourcewell complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Sourcewell and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Sourcewell’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Sourcewell's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Sourcewell's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Sourcewell's compliance with the requirements of the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Sourcewell's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Sourcewell's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Sourcewell's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
December 15, 2023



Report on *Minnesota Legal Compliance*

To the Board of Directors of
Sourcewell
Staples, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sourcewell as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that Sourcewell failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Sourcewell's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

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

Fargo, North Dakota
December 15, 2023

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

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

Identification of major programs:

Name of Federal Program	Federal Financial Assistance Listing
Special Education Cluster (IDEA)	
Special Education Grants to States - Regional Low Incidence	84.027A
Special Education Grants to States - CSPD	84.027A
Special Education Preschool Grants - Centers of Excellence CSPD	84.173A

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

**2023-001 Pooling of Cash and Investments
 Significant Deficiency**

Criteria: A good system of internal control contemplates an adequate system for having agreements in place for pooling of cash and investments between Sourcewell and third party entities.

Condition: It was noted that the custodial fund, Better Health Collective, had their cash and investments pooled with Sourcewell owned accounts.

Cause: A formal pooling agreement with stated investment and interest rates and asset management directions was not in place during the period audited.

Effect: Due to the lack of a documented agreement, the investment and interest income could not be specifically identified. There is a risk potential for misallocation of the Sourcewell and Better Health Collective funds without documented instructions.

Recommendation: We recommend Sourcewell consider executing an asset management and pooling agreement with specified rates of return for these assets. An alternative is to distribute all Better Health Collective funds to that entity and they can segregate all assets to be held in accounts owned by the Better Health Collective. The Board of Directors and management should consider the risk profile they are willing to accept with regards to this matter.

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

Section III –Federal Award Findings and Questioned Costs

None Reported

Section IV –Minnesota Legal Compliance Findings

None Reported