

# Annual Financial Report

## Southeast Service Cooperative

Rochester, Minnesota

For the Year Ended

June 30, 2019

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Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
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For the Year Ended June 30, 2019

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INTRODUCTORY SECTION

SOUTHEAST SERVICE COOPERATIVE  
INDEPENDENT SCHOOL DISTRICT NO. 921  
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2019

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Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Board of Directors  
For the Year Ended June 30, 2019

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Theresa Arrick-Kruger	Chairperson	12/31/2020
Mary Blair-Hoeft	Vice-chairperson	12/31/2021
Bree Maki	Clerk	12/31/2021
Jason Marquardt	Member	12/31/2021
Lynn Gorski	Member	12/31/2019
Karla Bauer	Member	12/31/2019
Don Leathers	Member	12/31/2020
Rob Mathias	Member	12/31/2020
Jean Roth	Member	12/31/2022
Monica Sveen-Ziebell	Member	12/31/2022
Steve Sallee	Executive Director	

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FINANCIAL SECTION

SOUTHEAST SERVICE COOPERATIVE  
INDEPENDENT SCHOOL DISTRICT NO. 921  
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of each major enterprise fund of the Southeast Service Cooperative, Rochester, Minnesota, (the Cooperative) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major enterprise fund of the Cooperative as of June 30, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### ***Revenue and Claims Development Information***

As disclosed in Note 1, information necessary to present the ten-year revenue and claims development information for its Risk Management Pool fund is not readily available and therefore the Cooperative has not presented this information. Accounting principles generally accepted in the United States of America has determined this information is necessary to supplement, although not required to be part of, the basic financial statements.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15, the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Changes in the Cooperative's Net OPEB Liability and Related Ratios starting on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

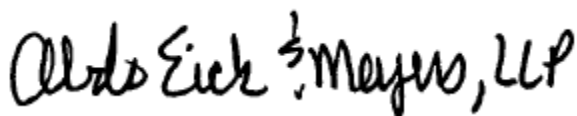
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The introductory section and combining and individual fund schedules and table are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

The combining and individual fund schedules and table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the Cooperative'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 the Cooperative'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 the Cooperative's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
October 28, 2019

People  
+ Process®  
Going  
Beyond the  
Numbers

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## Management's Discussion and Analysis

This section of Southeast Service Cooperative's (the Cooperative) annual financial report presents our discussion and analysis of the Cooperative's financial performance during the fiscal year that ended on June 30, 2019. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

The Cooperative is a membership organization and is recognized in terms of a legal entity as a public entity, independent school district. The Cooperative does not have any levy authority, does not have any tax base, does not receive any regular government funding; and doesn't provide ongoing, regular instructional programming for K-12 students. This is an important consideration in comparing and contrasting the Cooperative's financial statements with other public entities and/or Cooperatives. It is also an important consideration in that revenue has to be generated to provide services and programs for members.

### Overview of the Financial Statements

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two enterprise funds: Member Services and Risk Management Pools. Since the Cooperative does not have any significant financial activity because of government funding, there is only one set of statements that is prepared on a *government-wide* basis.

**Government-wide Statements.** The *government-wide statements* report information about the Cooperative using accounting methods similar to those used by private-sector companies. The balance sheet includes all the Cooperative's assets and deferred outflows of resources and liabilities and deferred inflows of resources. All the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position regardless of when cash is received or paid. The two government-wide statements report the Cooperative's *net position* and how they have changed. Net position - the difference between the Cooperative's assets and deferred outflows of resources and liabilities and deferred inflows of resources - are one way to measure the Cooperative's financial health or *position*. Over time, increases or decreases in the Cooperative's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

## Southeast Service Cooperative's Summary of Net Position

	Business-type Activities		Increase (Decrease)	
	2019	2018	Amount	Percent
Current and Other Assets	\$ 22,130,246	\$ 20,471,591	\$ 1,658,655	8.1 %
Capital Assets	1,905,153	1,921,616	(16,463)	(0.9)
Total Assets	<u>24,035,399</u>	<u>22,393,207</u>	<u>1,642,192</u>	7.3
Deferred Outflows of Resources	<u>1,596,174</u>	<u>1,839,048</u>	<u>(242,874)</u>	(13.2)
Long-term Liabilities Outstanding	1,734,531	3,480,793	(1,746,262)	(50.2)
Other Liabilities	5,779,822	6,074,152	(294,330)	(4.8)
Total Liabilities	<u>7,514,353</u>	<u>9,554,945</u>	<u>(2,040,592)</u>	(21.4)
Deferred Inflows of Resources	<u>1,896,306</u>	<u>745,837</u>	<u>1,150,469</u>	154.3
Net Position				
Investment in capital assets	1,905,153	1,921,616	(16,463)	(0.9)
Restricted for rate stabilization	7,642,988	7,123,992	518,996	7.3
Unrestricted	<u>6,672,773</u>	<u>4,885,865</u>	<u>1,786,908</u>	36.6
Total Net Position	<u>\$ 16,220,914</u>	<u>\$ 13,931,473</u>	<u>\$ 2,289,441</u>	16.4

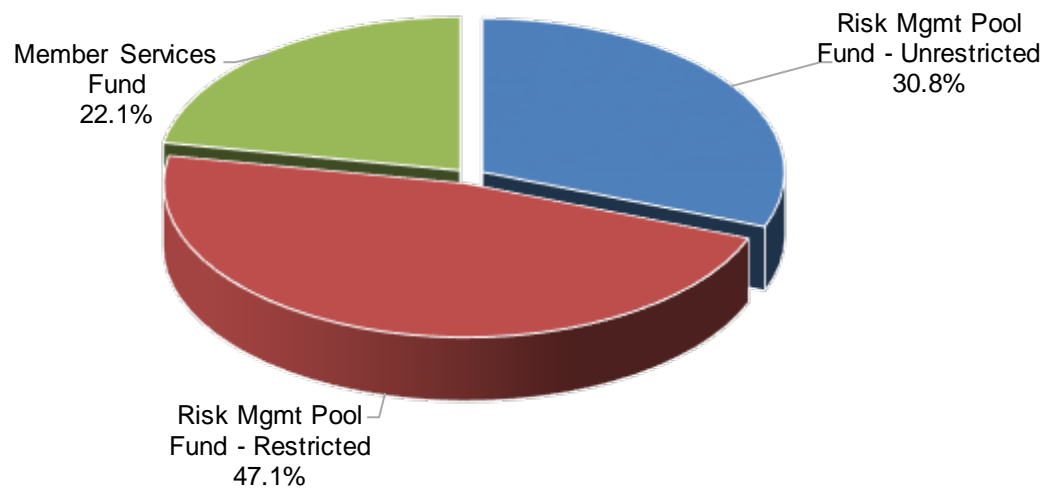


## Southeast Service Cooperative's Changes in Net Position

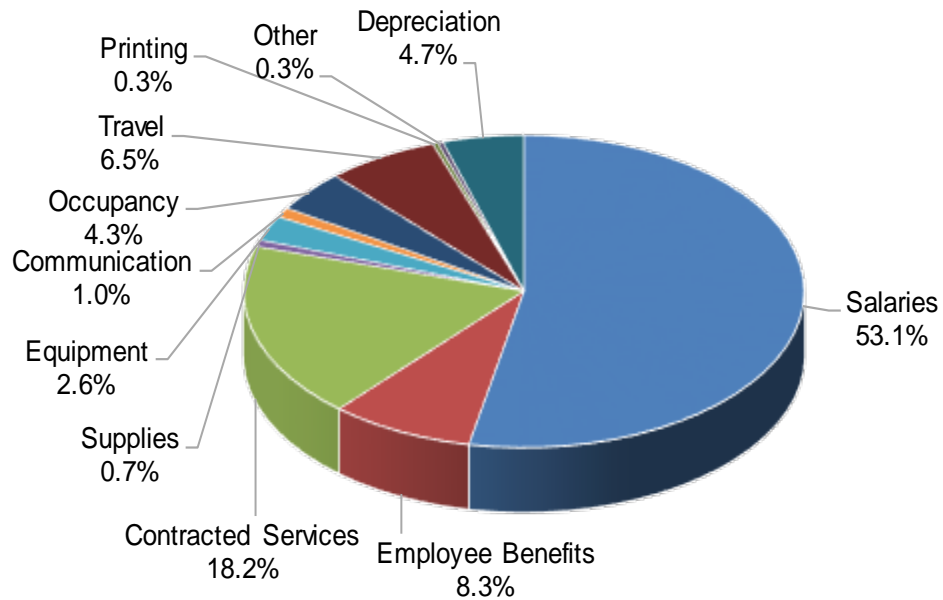
	Business-type Activities		Increase (Decrease)	
	2019	2018	Amount	Percent
Revenues				
Program revenues				
Fees from patrons	\$ 712,060	\$ 651,757	\$ 60,303	9.3 %
Grants	1,638,563	1,303,366	335,197	25.7
Sales and other conversion of assets	126,528	98,747	27,781	28.1
Insurance premiums	70,933,935	63,688,249	7,245,686	11.4
Administrative fees	2,466,208	2,169,328	296,880	13.7
General revenues				
Interest income	683,636	133,988	549,648	410.2
Gain on disposal of capital assets	14,919	-	14,919	N/A
Other miscellaneous revenue	7,389	14,183	(6,794)	(47.9)
Total Revenues	<u>76,583,238</u>	<u>68,059,618</u>	<u>8,523,620</u>	12.5
Expenses				
Salaries	1,969,978	1,686,364	283,614	16.8
Employee benefits	304,850	1,061,682	(756,832)	(71.3)
Contracted services	670,123	692,165	(22,042)	(3.2)
Supplies	26,859	14,559	12,300	84.5
Equipment (not capitalized)	95,499	51,220	44,279	86.4
Communication	36,193	37,459	(1,266)	(3.4)
Occupancy	160,232	197,960	(37,728)	(19.1)
Travel	239,591	239,762	(171)	(0.1)
Printing	10,509	10,570	(61)	(0.6)
Other	12,498	13,764	(1,266)	(9.2)
Administration	(10,459)	(6,451)	(4,008)	62.1
Depreciation	171,726	186,821	(15,095)	(8.1)
Wellness activities	-	230,779	(230,779)	(100.0)
Insurance premiums and administrative fees	13,979,803	11,832,663	2,147,140	18.1
Insurance claims	56,626,395	51,853,053	4,773,342	9.2
Insurance settlements	-	528,240	(528,240)	(100.0)
Network access fees	-	198,889	(198,889)	(100.0)
Loss (gain) on disposal of capital assets	-	(2,087)	2,087	(100.0)
Total Expenses	<u>74,293,797</u>	<u>68,827,412</u>	<u>5,466,385</u>	7.9
Change in Net Position	2,289,441	(767,794)	3,057,235	(398.2)
Net Position - July 1	<u>13,931,473</u>	<u>14,699,267</u>	<u>(767,794)</u>	(5.2)
Net Position - June 30	<u>\$ 16,220,914</u>	<u>\$ 13,931,473</u>	<u>\$ 2,289,441</u>	16.4

## Condensed Financial Information

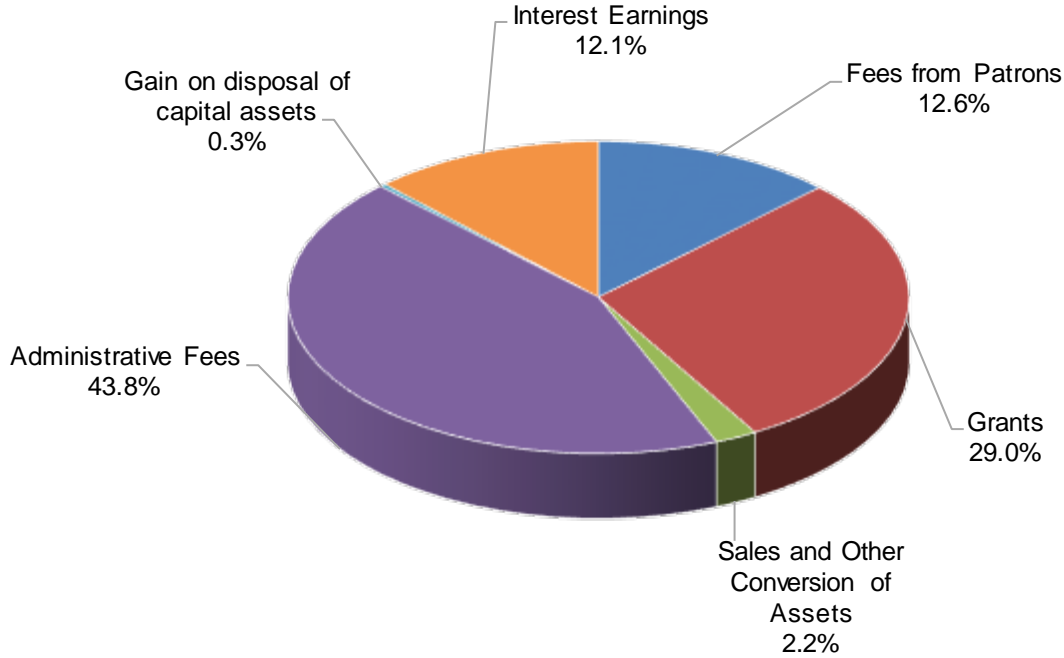
### Net Position June 30, 2019



### Total Expenses (Less Health Premiums) July 1, 2018 to June 30, 2019



**Total Revenue (Less Health Premiums)**  
**July 1, 2018 to June 30, 2019**



**Analysis of Financial Position of the Cooperative as a Whole**

The Cooperative's combined net position was \$16,220,914 on June 30, 2019. This was an increase of 16.4 percent from the prior year. This is primarily due to higher insurance premium and claims expenses for both insurance pools. Other factors include an increase in grant and administrative fee revenues.

The Cooperative continues to bear a 10 percent risk liability for member's claims in the insurance pools. The Cooperative must use insurance reserves to pay for any negative settlements. The Cooperative's insurance reserve is now \$12,631,191 which is an increase from 2018 of \$753,093. This exceeds a possible 10 percent claims loss. The maximum loss based on this year's claims would be \$5,662,640 (\$56,626,395 X 10 percent). The majority of reserves that are in excess of a 10 percent claim loss risk (\$5,662,640) are specifically identified for each pool at the time of settlements and are intended to reduce insurance premiums paid by members in future years. The Board of Directors reviews the status of reserves and strategizes in using them on a one-time basis to set future premiums in both pools.

Total long-term liabilities decreased by \$1,746,262 or 50.2 percent. This is due to a substantial decrease in the Cooperative's share of the Net Pension Liability (NPL) for both the Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA). The Cooperative's share of NPL for TRA decreased from \$2,435,341 to \$858,543 or 64.7 percent. The Cooperative's share of NPL for PERA decreased from \$944,822 to \$776,663 or 17.8 percent. These decreases are primarily due to the financial condition of PERA and TRA since the Cooperative's share of the NPL have changed very little.

## Southeast Service Cooperative's Capital Assets (Net of Depreciation)

	Business-type Activities		
	2019	2018	Increase (Decrease)
Land	\$ 535,500	\$ 535,500	\$ -
Land Improvements	497,705	497,705	-
Buildings	2,047,697	1,903,642	144,055
Equipment	690,755	718,722	(27,967)
Less Accumulated Depreciation	<u>(1,866,504)</u>	<u>(1,733,953)</u>	<u>(132,551)</u>
Total	<u>\$ 1,905,153</u>	<u>\$ 1,921,616</u>	<u>\$ (16,463)</u>

The Cooperative combined capital assets were \$1,905,153 on June 30, 2019. This was a decrease of 0.9 percent from the prior year. This decrease was mainly due to depreciation.

### Financial Analysis of the Cooperative Funds

The revenue increased in all areas and increased overall by 12.5%. Fees for services increased due to added participation in several program areas. Grant revenue increased due to additional spending on grant-specific activities. Sales increased due to increase sales volume overall. Administrative fees increased due to great share coming back to the cooperative from vendors. Interest income increased due to increase in interest rates.

Expenses decreased overall 0.1%. This is primarily due to the lowered effects of TRA and PERA, less utilization of consulting services, lowered facility costs, as well as more favorable insurance settlements.

Both Health Insurance pools currently have fully-funded reserves to protect the financial stability of the pools.

### Factors Bearing on the Cooperative's Future

The Cooperative will continue to strengthen revenue through fees for service and administrative fees related to services needed by member organizations. The Cooperative continues to rely very heavily on the revenue from health insurance programming. The ever-changing impact of Federal, State and local funding for the Cooperative's membership continues to provide both additional opportunities and additional challenges to the Cooperative's services. The Cooperative is seeking ways to continue to diversify revenue in order be less reliant on health insurance programming funds for future initiatives.

The greatest challenge to the Cooperative's financial position for the future is the 10 percent risk factor that is part of a contractual arrangement with Blue Cross and Blue Shield of Minnesota, Inc. The Cooperative has used a series of processes intended to maintain the financial efficacy of the pools, however, the rising costs and unpredictability of the health insurance market as well as Federal and State legislation will continue to affect future health insurance programming and the finances needed.

### Contacting the Cooperative's Financial Management Staff

This financial report is designed to provide our members, customers, and creditors with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Accounting Department, Southeast Service Cooperative, 210 Woodlake Drive Southeast, Rochester, MN 55904.

BASIC FINANCIAL STATEMENTS  
SOUTHEAST SERVICE COOPERATIVE  
INDEPENDENT SCHOOL DISTRICT NO. 921  
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2019

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Net Position  
Proprietary Funds  
June 30, 2019

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Current Assets			
Cash and temporary investments	\$ 3,422,511	\$ 4,192,869	\$ 7,615,380
Cash held by fiscal agent	-	5,557,529	5,557,529
Receivables			
Accounts	71,187	-	71,187
Interest	-	16,022	16,022
Due from other districts	9,205	-	9,205
Intergovernmental	402,997	-	402,997
Rate stabilization reserve	-	7,642,988	7,642,988
Prepaid items	2,763	-	2,763
Total Current Assets	<u>3,908,663</u>	<u>17,409,408</u>	<u>21,318,071</u>
Noncurrent Assets			
Land held for resale	-	812,175	812,175
Capital assets			
Land	535,500	-	535,500
Land improvements	497,705	-	497,705
Buildings	2,047,697	-	2,047,697
Equipment	690,755	-	690,755
Less accumulated depreciation	(1,866,504)	-	(1,866,504)
Total capital assets (net of accumulated depreciation)	<u>1,905,153</u>	<u>-</u>	<u>1,905,153</u>
Total Noncurrent Assets	<u>1,905,153</u>	<u>812,175</u>	<u>2,717,328</u>
Total Assets	<u>5,813,816</u>	<u>18,221,583</u>	<u>24,035,399</u>
Deferred Outflows of Resources			
Deferred pension resources	1,584,749	7,329	1,592,078
Deferred other postemployment benefit resources	3,898	198	4,096
Total Deferred Outflows of Resources	<u>1,588,647</u>	<u>7,527</u>	<u>1,596,174</u>
Liabilities			
Current Liabilities			
Accounts and other payables	71,446	1,955	73,401
Salaries payable	88,207	-	88,207
Due to other districts	298	300	598
Due to other governments	260	-	260
Health claims payable - IBNR	-	5,557,529	5,557,529
Unearned revenue	2,500	-	2,500
Compensated absences payable - current portion	57,327	-	57,327
Total Current Liabilities	<u>220,038</u>	<u>5,559,784</u>	<u>5,779,822</u>
Noncurrent Liabilities			
Compensated absences payable	34,266	-	34,266
Pension liability	1,607,788	27,418	1,635,206
Other postemployment benefits payable	62,701	2,358	65,059
Total Noncurrent Liabilities	<u>1,704,755</u>	<u>29,776</u>	<u>1,734,531</u>
Total Liabilities	<u>1,924,793</u>	<u>5,589,560</u>	<u>7,514,353</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Net Position  
Proprietary Funds (Continued)  
June 30, 2019

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Deferred Inflows of Resources			
Deferred Pension Resources	\$ 1,887,947	\$ 8,359	\$ 1,896,306
Net Position			
Investment in capital assets	1,905,153	-	1,905,153
Restricted for rate stabilization	-	7,642,988	7,642,988
Unrestricted	1,684,570	4,988,203	6,672,773
Total Net Position	<u>\$ 3,589,723</u>	<u>\$ 12,631,191</u>	<u>\$ 16,220,914</u>
Net Position as Reported Above	\$ 3,589,723	\$ 12,631,191	\$ 16,220,914
Adjustments from net position to UFARS fund balance			
Pension liability	1,607,788	27,418	1,635,206
Other postemployment benefits payable	62,701	2,358	65,059
Deferred inflows of pension resources	1,887,947	8,359	1,896,306
Deferred outflows of pension resources	(1,584,749)	(7,329)	(1,592,078)
Deferred outflows of other postemployment benefits	<u>(3,898)</u>	<u>(198)</u>	<u>(4,096)</u>
Total UFARS Fund Balance	<u>\$ 5,559,512</u>	<u>\$ 12,661,799</u>	<u>\$ 18,221,311</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2019

	Business-type Activities - Enterprise Funds		
	Member	Risk	
	Services	Management	Total
		Pool	
Operating Revenues			
Fees from patrons	\$ 712,060	\$ -	\$ 712,060
Grants			
Local	35,286	-	35,286
State	262,049	-	262,049
Federal	1,341,228	-	1,341,228
Sales and other conversion of assets	126,528	-	126,528
Insurance premiums	-	70,933,935	70,933,935
Administrative fees	30,109	2,436,099	2,466,208
Other miscellaneous revenue	7,389	-	7,389
Total Operating Revenues	<u>2,514,649</u>	<u>73,370,034</u>	<u>75,884,683</u>
Operating Expenses			
Salaries	1,922,023	47,955	1,969,978
Employee benefits	309,268	(4,418)	304,850
Contracted services	281,593	388,530	670,123
Supplies	26,859	-	26,859
Equipment (not capitalized)	95,499	-	95,499
Communication	34,540	1,653	36,193
Occupancy	154,757	5,475	160,232
Travel	225,785	13,806	239,591
Printing	9,612	897	10,509
Other	12,498	-	12,498
Administration	(928,697)	918,238	(10,459)
Depreciation	171,726	-	171,726
Insurance premiums and administrative fees	-	13,979,803	13,979,803
Insurance claims	-	56,626,395	56,626,395
Total Operating Expenses	<u>2,315,463</u>	<u>71,978,334</u>	<u>74,293,797</u>
Operating Income (Loss)	<u>199,186</u>	<u>1,391,700</u>	<u>1,590,886</u>
Nonoperating Revenues (Expenses)			
Interest income	26,059	657,577	683,636
Gain on disposal of capital assets	14,919	-	14,919
Total Nonoperating Revenues (Expenses)	<u>40,978</u>	<u>657,577</u>	<u>698,555</u>
Income (Loss) Before Transfers	240,164	2,049,277	2,289,441
Transfers In	1,296,184	-	1,296,184
Transfers Out	-	(1,296,184)	(1,296,184)
Change in Net Position	1,536,348	753,093	2,289,441
Net Position, July 1	<u>2,053,375</u>	<u>11,878,098</u>	<u>13,931,473</u>
Net Position, June 30	<u>\$ 3,589,723</u>	<u>\$ 12,631,191</u>	<u>\$ 16,220,914</u>

The notes to the financial statements are an integral part of this statement.



Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2019

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Cash Flows from Operating Activities			
Cash received from members	\$ 766,515	\$ 73,370,034	\$ 74,136,549
Cash payments to suppliers for goods and services	105,262	(15,309,734)	(15,204,472)
Cash payments on insurance claims and settlements	-	(57,551,684)	(57,551,684)
Cash payments to employees for services	(2,460,947)	(66,363)	(2,527,310)
Grant receipts	1,638,563	-	1,638,563
Net Cash Provided (Used) by Operating Activities	<u>49,393</u>	<u>442,253</u>	<u>491,646</u>
Cash Flows from Noncapital and Related Financing Activities			
Transfers in	1,296,184	-	1,296,184
Transfers out	-	(1,296,184)	(1,296,184)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>1,296,184</u>	<u>(1,296,184)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(162,410)	-	(162,410)
Proceeds from sale of equipment	18,947	-	18,947
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(143,463)</u>	<u>-</u>	<u>(143,463)</u>
Cash Flows from Investing Activities			
Interest received on investments	<u>26,059</u>	<u>686,432</u>	<u>712,491</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,228,173	(167,499)	1,060,674
Cash and Cash Equivalents, July 1	<u>2,194,338</u>	<u>9,917,897</u>	<u>12,112,235</u>
Cash and Cash Equivalents, June 30	<u>\$ 3,422,511</u>	<u>\$ 9,750,398</u>	<u>\$ 13,172,909</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	\$ 3,422,511	\$ 4,192,869	\$ 7,615,380
Cash held with fiscal agent	-	5,557,529	5,557,529
Total Cash and Cash Equivalents	<u>\$ 3,422,511</u>	<u>\$ 9,750,398</u>	<u>\$ 13,172,909</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Cash Flows Proprietary Funds  
(Continued)  
For the Year Ended June 30, 2019

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 199,186	\$ 1,391,700	\$ 1,590,886
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	174,845	-	174,845
(Increase) decrease in assets			
Accounts receivable	(55,803)	-	(55,803)
Due from other districts	18,138	-	18,138
Intergovernmental	(73,406)	-	(73,406)
Rate stabilization reserve	-	(518,996)	(518,996)
Prepaid items	3,231	-	3,231
(Increase) decrease in deferred outflow of resources			
Deferred pension resources	227,925	14,949	242,874
Increase (decrease) in liabilities			
Accounts and other payables	13,260	(592)	12,668
Salaries payable	88,207	-	88,207
Health claims payable	-	(4,552,718)	(4,552,718)
Due to other districts	148	(100)	48
Due to other governments	(2,050)	(640)	(2,690)
Health claims payable - IBNR	-	4,146,425	4,146,425
Unearned revenue	1,500	-	1,500
Compensated absences payable	10,329	-	10,329
Pension liability	(1,712,557)	(32,400)	(1,744,957)
OPEB Liability	578	18	596
Increase (decrease) in deferred inflow of resources			
Deferred pension resources	1,155,862	(5,393)	1,150,469
Net Cash Provided (Used) by Operating Activities	<u>\$ 49,393</u>	<u>\$ 442,253</u>	<u>\$ 491,646</u>
Noncash Transactions Involving Capital and Related Financing Activities			
Book Value of Disposed Capital Assets	<u>\$ 4,028</u>	<u>\$ -</u>	<u>\$ 4,028</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Fiduciary Net Position  
Fiduciary Fund  
June 30, 2019

	<u>Agency</u>
Assets	
Cash and temporary investments	\$ 58,319
Accounts receivable	1,619
Due from other districts	<u>750</u>
Total Assets	<u><u>\$ 60,688</u></u>
Liabilities	
Due to other districts	<u><u>\$ 60,688</u></u>

The notes to the financial statements are an integral part of this statement.

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Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

## **Note 1: Summary of Significant Accounting Policies**

### **A. Reporting Entity**

The Southeast Service Cooperative (the Cooperative) is a public agency established by an act of the 1976 Legislature of the State of Minnesota. The primary purpose is to provide services, programs, in-service education, and planning to participating school districts within an 11 county region in Southeastern Minnesota. The Cooperative has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Cooperative are such that exclusion would cause the Cooperative's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Cooperative has no component units that meet the GASB criteria.

The Pool is administered by an agreement with Minnesota Healthcare Consortium (MHC) from July 1, 2018 to June 30, 2019.

### **B. Joint Powers Agreement for Group Employee's Benefit and Other Risk Management Services**

The Cooperative and its participating members have established a risk management program. The objective is to procure and manage insurance programs at lower costs. Members fund this program by remitting to the Cooperative an actuarially determined premium. A fee is paid to BCBSM, Inc. on a monthly basis for administering the program. The claims portion is remitted to BCBSM, Inc. on a weekly basis. Any remaining amounts are held by the Cooperative to fund any future liabilities (insurance claims). There are 17 School pool and 28 other governmental units (Government) included in the pools.

BCBSM, Inc. and the Cooperative on an annual basis, calculate an estimate of future claims based on claims experience and actuarial studies to determine premiums. At the end of each plan year, a settlement is made with BCBSM, Inc. and the reserve account and the Incurred but Not Reported (IBNR) are funded. BCBSM, Inc. retains the risk for claims above the Cooperative's 110 percent aggregate attachment point, but the Cooperative is responsible for claims from 100 percent to 110 percent. The Cooperative purchases through BCBSM, Inc., stop-loss insurance to pay individual insurance member claims in excess of \$500,000 for members of the Government and School pools. The Cooperative purchases additional stop-loss insurance through the Minnesota HealthCare Consortium for the Government and School pools in a tiered rating as follows: \$75,000 for Groups 2-50, \$100,000 for Group 51-99 and \$200,000 for Groups 100+. The premium plan year-end is August 31 for School pool and December 31 for the Government pool, even though premium and claims activity is reported using a June 30 year end. As of June 30, 2019, plan year ending December 31, 2018 for the Government pool has been settled and the plan year ended August 31, 2018 for the School pool has been settled.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

As a part of the overall program, Minnesota Healthcare Consortium (MHC) has established a Rate Stabilization Reserve (RSR) to provide cash flow for the insurance program. This reserve is ongoing and was established by MHC with a contribution equal to one month's estimated charges. Each month, a portion of the premiums are to be deposited into the RSR to maintain this fund. The RSR is used to provide funds when claims exceed premiums and to fund the IBNR Claims account if there are insufficient funds to fund that liability and to receive any over-funding of the IBNR. Negative balances in the RSR represent advances to the Cooperative and are reflected in the financial statements as a liability. The RSR balance is adjusted on an annual basis as part of the year-end settlement as referred to above. The RSR activity and balances reflect the balances as of June 30, 2019 for the School Pool and the Government Pool and are based on estimates from MHC using data from BCBSM.

**Transfers to Minnesota Healthcare Consortium**

In August 2017, the Cooperative agreed, along with six other cooperatives throughout the state of Minnesota, to establish a new statewide public entity risk pool through the merger of the insurance pools held by each cooperative. Starting with fiscal periods beginning in 2018, insurance pools from each cooperative were merged into a joint powers entity, Minnesota Healthcare Consortium (MHC). MHC, and its elected board of directors, will maintain decision-making the power over the merged pools such as, but not limited to decisions to: purchase and hold stop-loss insurance, permit limited commingling of program funds in a statewide reserve, and enter into statewide contracts with third party vendors. As a result of this agreement the Cooperative's IBNR reserve and RSR funds were transferred to MHC. Ongoing year-end claims, RSR, and stop-loss settlement activity is expected to occur between the Cooperative and MHC with MHC replacing BCBSM within the settlement process. The Cooperative does not anticipate any significant changes to its net assets and financial positions as a direct result of this transition.

**C. Basic Financial Statement Presentation**

All activities of the Cooperative are accounted for within two enterprise funds. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. Proprietary funds are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting* in accordance with accounting principles generally accepted in the United States of America. 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 as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary funds are used to account for resources held for the benefit of parties outside of the Cooperative. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Cooperative's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Cooperative receives value without directly giving equal value in return, include grants, entitlement and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Cooperative must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Cooperative on a reimbursement basis.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

**E. Description of Funds**

The Cooperative reports the following major proprietary funds:

The *Member Services fund* is the Cooperative's primary operating fund. The fund accounts for all financial resources of the Cooperative, except those required to be accounted for in another fund.

The *Risk Management Services fund* is used to account for the various member services and risk management pool activities of the Cooperative and also "termination reserves", recalculated at annual settlement, to pay claims run-out in the event the pool's relationship with BCBSM Inc. ceases.

Additionally the Cooperative reports the following fiduciary fund:

*Fiduciary funds* account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The *SEMNET fund* is custodial in nature and does not present results of operations or have a measurement focus. The fund accounts for assets held by the Cooperative for the Southeast Minnesota Network of which the Cooperative serves as the fiscal host.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing insurance services to members in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Cooperative's enterprise funds are charges to customers for insurance services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then unrestricted resources as they are needed.

**F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position**

**Deposits and Investments**

The Cooperative's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The Cooperative may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Cooperative has not adopted a formal investment policy that addresses interest rate and credit risk.

Investments for the Cooperative are reported at fair value. The Minnesota School District Liquid Asset Fund Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

The Cooperative 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.

The Cooperative has the following recurring fair value measurements as of June 30, 2019:

- Negotiable certificates of deposit of \$3,972,352 are valued using a matrix pricing model (Level 2 inputs)

**Accounts Receivable**

Accounts receivable include amounts billed to members for services provided before year end. All trade receivables are shown net of an allowance for uncollectible accounts. It has been determined, as of June 30, 2019, that no allowance for uncollectible accounts is necessary.

**Rate Stabilization Reserve**

As described in Note 1B, MHC retains a portion of the premium paid as a rate stabilization reserve. This amount is recalculated annually in conjunction with the annual settlement. Negative balances in the RSR represent advances by MHC and require repayment by the Plan. For the plan years ended June 30, 2019 and 2018, the rate stabilization reserve held by BCBSM, Inc. was \$7,642,988 and \$7,123,992, respectively.



Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Assets Held for Resale**

These assets represent land owned by the Cooperative with the intent to sell to developers. This land is recorded at the lesser of historical cost or net realizable value.

**Capital Assets**

Capital assets include property, plant and equipment. Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$2,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Cooperative are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	24
Equipment and Vehicles	3 - 15

**Deferred Outflows of Resources**

In addition to assets, the statement of net 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. The Cooperative has two items that qualifies for reporting in this category. Accordingly, the items, deferred pension resources and deferred OPEB resources, are reported only in the statement of net position. The pension resources results from actuarial calculations and current year pension contributions made subsequent to the measurement date. The OPEB resources are current year OPEB contributions made subsequent to the measurement date.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

## Note 1: Summary of Significant Accounting Policies (Continued)

### Health Claims Payable - IBNR (Incurred but Not Reported)

Health claims payable include provisions for claims reported but not settled, future claims adjustment expenses, and claims incurred but not reported (IBNR). The provision for these claims liabilities is determined by an actuarial calculation prepared by BCBSM, Inc. based on claims incurred plus a completion factor estimating the amount, which will ultimately be paid by each claimant. The provision for claims liabilities is estimated based on the Cooperative's experience since the inception of the program, and is based on the June 30, 2019 estimated settlement for both education districts and cities/counties and other local governmental agencies. The Cooperative has reserved investments in excess of these liabilities. Management believes the claims liabilities based on BCBSM, Inc. estimated actuarial calculations as of June 30, 2019 adequately reflect the estimated claims liabilities for the current year ended June 30, 2019.

Information necessary to separate claims reported but not settled, claims adjustment expenses, and claims incurred but not reported is not readily available. Such information includes the actuarial estimates of incurred claims and expenses at the end of the year, claims paid related to prior years' claims, and subsequent adjustments to prior years' estimates for incurred claims and expenses. This information, if available, can be used to present Ten-Year Claims Development Information.

### Pensions

#### Teachers Retirement Association (TRA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

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 merger 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 3.

#### Public Employees Retirement Association (PERA)

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERF and TRA is as follows:

	GERF	TRA	Total Pension Expense
Pension Expense	\$ 88,817	\$ (324,681)	\$ (235,864)

### Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements 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. The government has one type of item, which arises only under a full accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, deferred pension resources, is reported only in the government-wide statement of net position and results from actuarial calculations.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### **Other Postemployment Benefits**

Under Minnesota statute 471.61, subdivision 2b, public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees are able to add dependent coverage during open enrollment period or qualifying life event prior to retirement. All premiums are funded on a pay-as-you-go basis. The liability was determined, in accordance with GASB Statement No. 75, at July 1, 2018.

### **ACA Fees Payable**

Under the Affordable Care Act (ACA), health plan sponsors are required to pay a Temporary Reinsurance Fee (TRP) to fund a Transitional Reinsurance Program in place from 2014 to 2016 which is payable to the Department of Health and Human Services (HHS). The filing date for the TRP fee is November 15th, with payment due by January 15th, for each applicable year. TRP fees are based on the number of individuals covered under each group member's plan. The group members participating in the Cooperative's health insurance purchasing pool are responsible for filing and paying these fees to HHS.

To assist in collecting funds to pay for each group's estimated TRP fees, the Cooperative, members, and BCBSM have agreed to include these fees as a portion of the groups' premiums paid to BCBSM. BCBSM collects these fees and transmits them to the Cooperative. The Cooperative holds these fees in escrow until the groups' estimated filing and payment periods, at which time funds will be refunded back to the pool groups.

### **Vacation Payable**

Vacation pay is earned based on position and years of service. Vacation may be accumulated up to a maximum amount equal to 1.5 times the amount the employee is eligible to earn in the current year. Employees are required to take at least five consecutive days of vacation each year. The Member Services fund is typically used to liquidate vacation payable.

### **Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Investment in capital assets - Consists of capital assets, net of accumulated depreciation.
- b. Restricted net position - Consist of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "investment in capital assets".

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

## Note 2: Detailed Notes on All Funds

### A. Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Cooperative's deposits and investments may not be returned or the Cooperative will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board of Directors, the Cooperative maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Cooperative deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any Federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Cooperative.

At year end, the Cooperative's carrying amount of deposits was \$486,725 and the bank balance was \$557,980 which was covered by federal depository insurance.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAM. The Cooperative's investment in the MSDLAF and Broker money markets are equal to the value of pool shares.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 2: Detailed Notes on All Funds (Continued)**

As of June 30, 2019, the Cooperative had the following investments that are insured or registered, or securities held by the Cooperative or its agent in the Cooperative's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments at Amortized Costs						
Wells Fargo Investments Money Market Minnesota School District Max Class	NA	less than 6 months	\$ 1,488,316	\$ -	\$ -	\$ -
Minnesota School District Liquid Asset Fund	N/A	less than 6 months	1,724,721	-	-	-
	N/A	less than 6 months	5,559,014	-	-	-
Non-pooled Investments at Fair Value						
Negotiable certificates of deposit	AAA	less than 6 months	489,461	-	489,461	-
Negotiable certificates of deposit	AAA	6 to 12 months	243,422	-	243,422	-
Negotiable certificates of deposit	AAA	1 to 3 years	3,239,469	-	3,239,469	-
Total Investments			\$ 12,744,403	\$ -	\$ 3,972,352	\$ -

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 2: Detailed Notes on All Funds (Continued)**

A reconciliation of cash and temporary investments as shown on the statement of net position for the Cooperative follows:

Deposits	\$ 486,725
Cash on Hand	100
Investments	<u>12,744,403</u>
Total	<u><u>\$ 13,231,228</u></u>
Cash and Temporary Investments	\$ 7,615,380
Cash Held by Fiscal Agent	5,557,529
Plus Fiduciary Fund Cash and Temporary Investments	<u>58,319</u>
Total	<u><u>\$ 13,231,228</u></u>

**B. Capital Assets**

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

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Business-type Activities				
Capital Assets not Being Depreciated				
Land	<u>\$ 535,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,500</u>
Capital Assets Being Depreciated				
Land improvements	497,705	-	-	497,705
Buildings	1,903,642	144,055	-	2,047,697
Equipment	<u>718,722</u>	<u>18,355</u>	<u>(46,322)</u>	<u>690,755</u>
Total Capital Assets Being Depreciated	<u>3,120,069</u>	<u>162,410</u>	<u>(46,322)</u>	<u>3,236,157</u>
Less Accumulated Depreciation for				
Land improvements	(143,039)	(24,885)	-	(167,924)
Buildings	(1,084,420)	(71,224)	-	(1,155,644)
Equipment	<u>(506,494)</u>	<u>(78,736)</u>	<u>42,294</u>	<u>(542,936)</u>
Total Accumulated Depreciation	<u>(1,733,953)</u>	<u>(174,845)</u>	<u>42,294</u>	<u>(1,866,504)</u>
Total Capital Assets Being Depreciated, Net	<u>1,386,116</u>	<u>(12,435)</u>	<u>(4,028)</u>	<u>1,369,653</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 1,921,616</u></u>	<u><u>\$ (12,435)</u></u>	<u><u>\$ (4,028)</u></u>	<u><u>\$ 1,905,153</u></u>

Depreciation expense was charged to business-type activities as follows:

Member Services	<u><u>\$ 174,845</u></u>
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**Note 2: Detailed Notes on All Funds (Continued)**

**C. Interfund Receivables, Payables and Transfers**

During 2019, the Cooperative transferred \$1,296,184 from the Risk Management Pool to the Member Services fund. This transfer occurred to move cash reserves from the current year, which is attributable to health insurance operations of the Members Services fund.

**D. Leases and Rents**

**Operating Leases**

The Cooperative is under contract for thirteen operating leases at year end. They are leasing mailing equipment from Pitney Bowes for four years at a base rate of \$69 per month. This lease expires in July 2022. The Cooperative also has a lease for one copying equipment unit from A+ Imaging Systems for three years at a base rate \$488 per month. This lease expires in December 2020. The Cooperative also has a lease for twelve Jeep Cherokees under a master lease agreement with Enterprise Fleet Management for five years with base rate of \$7,373 per month. Five of the Jeep Cherokee's were sold during fiscal year 2019, meaning lease payments will drop to \$3,545 per month during fiscal year 2020. The last lease expires March 2024. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Mailing Equipment	Copiers	Vehicles	Total
2020	\$ 828	\$ 5,856	\$ 42,534	\$ 49,218
2021	828	2,928	34,333	38,089
2022	828	-	29,341	30,169
2023	69	-	29,341	29,410
2024	-	-	8,275	8,275
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 2,553</u>	<u>\$ 8,784</u>	<u>\$ 143,824</u>	<u>\$ 155,161</u>
Lease Expense - 2019	<u>\$ 790</u>	<u>\$ 8,570</u>	<u>\$ 63,371</u>	<u>\$ 72,731</u>

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**Note 2: Detailed Notes on All Funds (Continued)**

**E. Long-term Debt**

Changes In Long-term Liabilities

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

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Business-type Activities					
Other Liabilities					
Compensated absences payable	\$ 81,264	\$ 108,216	\$ (97,887)	\$ 91,593	\$ 57,327
Pension liability					
TRA	2,435,341	-	(1,576,798)	858,543	-
PERA	944,822	21,753	(189,912)	776,663	-
Other postemployment benefits payable	64,463	13,364	(12,768)	65,059	-
Total	<u>\$ 3,525,890</u>	<u>\$ 143,333</u>	<u>\$ (1,877,365)</u>	<u>\$ 1,791,858</u>	<u>\$ 57,327</u>

**F. Unrestricted - Board Designated Net Position**

Board designated unrestricted net position for the year ended June 30, 2019 is as follows:

	Member Services	Risk Management Pool
Designated for Unemployment Fund	\$ 141,128	\$ -



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**Note 3: Defined Benefit Pension Plans Statewide**

Substantially all employees of the Cooperative are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

**A. Teachers Retirement Association (TRA)**

**1. Plan Description**

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota statutes, chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active member, 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 Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

**2. 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 as described:

Tier I:	Step Rate Formula	Percentage
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

With these provisions:

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

**or**

**Tier II:** 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. 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 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 also 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 provisions in effect at the time they last terminated their public service.

**3. Contribution Rate**

Per Minnesota statutes, chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

Plan	Ending June 30, 2017		Ending June 30, 2018	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%
Coordinated	7.50%	7.50%	7.50%	7.50%

The Cooperative's contributions to TRA for the years ending June 30, 2019, 2018 and 2017 were \$78,413, \$56,640 and \$49,198, respectively. The Cooperative's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

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

Employer Contributions Reported in TRA'S CAFR Statement of Changes in Fiduciary Net Position	\$378,728,000
Add Employer Contributions Not Related to Future Contribution Efforts	522,000
Deduct TRA'S Contributions Not Included in Allocation	(471,000)
Total Employer Contributions	<u>378,779,000</u>
Total Non-Employer Contributions	<u>35,588,000</u>
 Total Contributions Reported in Schedule of Employer and Non-Employer Pension Allocations	 <u><u>\$414,367,000</u></u>

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

**4. Actuarial Assumptions**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial information	
Valuation date	July 1, 2018
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85 to 8.85% for ten years and 3.25 to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually
Mortality assumption	
Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

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 Allocation	Long-term Expected Real Rate of Return
Domestic Equity	36.00 %	5.10 %
International Equity	17.00	5.30
Alternative Assets (Private Markets)	25.00	5.90
Bonds (Fixed Income)	20.00	0.75
Unallocated Cash	2.00	-
Total	<u>100.00 %</u>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2018 is 6.00 years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions" and "Changes in Proportion" use the amortization period of 6.00 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is 5.00 years as required by GASB 68.

Changes in actuarial assumptions since the 2017 valuation:

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

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

**5. Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**6. Net Pension Liability**

At June 30, 2019, the Southeast Service Cooperative (the Cooperative) reported a liability of \$858,543 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Cooperative's proportion of the net pension liability was based on the Cooperative's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The Cooperative proportionate share was 0.0137 percent at the end of the measurement period and 0.0122 percent for the beginning of the year.

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

Cooperative's Proportionate Share of Net Pension Liability	\$	858,543
State's Proportionate Share of Net Pension Liability Associated With the Cooperative		80,915

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

For the year ended June 30, 2019, the Cooperative recognized negative pension expense of (\$268,208). It also recognized (\$56,473) as an increase to pension expense for the support provided by direct aid.

On June 30, 2019, the Cooperative had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 7,082	\$ 17,357
Changes in Actuarial Assumptions	1,119,792	1,464,615
Net Difference Between Projected and Actual Earnings on Plan Investments	-	62,024
Changes in Proportion	179,197	115,563
Contributions to TRA Subsequent to the Measurement Date	78,413	-
	<u>1,384,484</u>	<u>1,659,559</u>
Total	<u>\$ 1,384,484</u>	<u>\$ 1,659,559</u>

Deferred outflows of resources totaling \$78,413 related to pensions resulting from the Cooperative's contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

2020	\$ 109,570
2021	39,547
2022	(10,742)
2023	(259,841)
2024	(232,022)

**7. Pension Liability Sensitivity**

The following presents the net pension liability of TRA calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Cooperative proportionate share of NPL		
1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
\$ 1,362,505	\$ 858,543	\$ 442,778

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

**8. 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 [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651-296-2409 or 800-657-3669).

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

**B. Public Employees Retirement Association (PERA)**

**1. Plan Description**

The Cooperative participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the Cooperative, other than teachers, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**2. 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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

GERF Benefits

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

**3. Contributions**

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Plan members were required to contribute 6.50 percent of their annual covered salary and the Cooperative was required to contribute 7.50 percent of pay for Coordinated Plan members in fiscal year 2019. The Cooperative's contributions to the GERF for the years ending June 30, 2019, 2018 and 2017 were \$65,541, \$70,445 and \$71,530, respectively. The Cooperative's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**4. Pension Costs**

At June 30, 2019, the Cooperative reported a liability of \$776,663 for its proportionate share of the GERF's net pension liability. The Cooperative's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Cooperative totaled \$25,372. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Cooperative's proportionate share of the net pension liability was based on the Cooperative's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Cooperative's proportion was 0.0140 percent which was a decrease of 0.0008 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Cooperative recognized pension expense of \$86,577 for its proportionate share of GERF's pension expense. In addition, the Cooperative recognized an additional \$2,240 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERF.

At June 30, 2019, the Cooperative reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 20,580	\$ 21,931
Changes in Actuarial Assumptions	76,352	90,680
Net Difference Between Projected and Actual Earnings on Plan Investments	-	85,495
Changes in Proportion	45,121	38,641
Contributions to GERF Subsequent to the Measurement Date	65,541	-
	<hr/>	<hr/>
Total	<u>\$ 207,594</u>	<u>\$ 236,747</u>



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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

Deferred outflows of resources totaling \$65,541 related to pensions resulting from the Cooperative's contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

2020	\$	50,553
2021		(51,513)
2022		(77,512)
2023		(16,222)

**5. Actuarial Assumptions**

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and dependents were based on RP-2014 tables for the GERS for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERS through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERS was completed in 2016.

The following changes in actuarial assumptions occurred in 2018:

**GERS**

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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**Note 3: Defined Benefit Pension Plans - Statewide (Continued)**

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 Allocation	Long-term Expected Real Rate of Return
Domestic Equity	36.00 %	5.10 %
International Equity	17.00	5.30
Bonds (Fixed Income)	20.00	0.75
Alternative Assets (Private Markets)	25.00	5.90
Cash	2.00	-
Total	<u>100.00 %</u>	

**6. Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 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 GERS 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.

**7. Pension Liability Sensitivity**

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

Cooperative Proportionate Share of NPL		
1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
\$ 1,262,176	\$ 776,663	\$ 375,885

**8. 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](http://www.mnpera.org).

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## Note 4: Postemployment Benefits Other Than Pensions

### A. Plan Description

The Cooperative operates a single-employer retiree benefit plan ("the Plan") that provides health, life and dental insurance to eligible employees and their families through the Cooperative's health insurance plan. The full cost of the benefits is covered by the plan. Benefit and eligibility provisions are established through negotiations between the Cooperative and unions representing Cooperative employees and are renegotiated each bargaining period. The Plan does not issue a publicly available report.

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	22
	<hr/>
Total plan members	23
	<hr/> <hr/>

### B. Funding Policy

Contribution requirements are also negotiated between the Cooperative and union representatives. The Cooperative contributes a predetermined portion of the cost of current-year premiums for eligible retired plan members and their spouses based on the employment contract in effect at the time of retirement. For fiscal year 2019, the Cooperative contributed \$12,768 to the Plan.

### C. Actuarial Methods and Assumptions

The Cooperative's total OPEB liability of \$65,059 was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. Roll forward procedures were used to roll forward the total OPEB liability to the measurement date and the Plan's fiscal year end.

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.40%
20-year Municipal Bond Yield	3.40%
Inflation Rate	2.50%
Salary Increases	3.00%
Medical Trend Rate	6.25% as of July 1, 2018 grading to 5.00% over 5 year

The discount rate used to measure the total OPEB liability was 3.40 percent. Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2018 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 4: Postemployment Benefits Other Than Pensions (Continued)**

**D. Changes in the Total OPEB Liability**

	Total OPEB Liability (a)
Balances at June 30, 2018	\$ 64,463
Changes for the Year:	
Service cost	11,013
Interest	2,351
Benefit payments	(12,768)
Net Changes	596
Balances at June 30, 2019	\$ 65,059

Since the prior measurement date, there were no changes in assumptions or benefit terms.

**E. Sensitivity of the Total OPEB Liability**

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.40 percent) or 1-percentage-point higher (4.40 percent) than the current discount rate:

1 Percent Decrease (2.40%)	Current (3.40%)	1 Percent Increase (4.40%)
\$ 69,946	\$ 65,059	\$ 60,421

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a Healthcare Cost Trend Rate that is 1-percentage point lower (5.25 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.25 percent decreasing to 6.00 percent) than the current Healthcare Cost Trend Rate rate:

1 Percent Decrease (5.25% decreasing to 4.00%)	Healthcare Cost Trend Rates (6.25% decreasing to 5.00%)	1 Percent Increase (7.25% decreasing to 6.00%)
\$ 56,798	\$ 65,059	\$ 74,932

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 4: Postemployment Benefits Other Than Pensions (Continued)**

**F. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2019, the Cooperative recognized OPEB expense of \$44. At June 30, 2019, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions to OPEB Subsequent to the Measurement Date	\$ 4,096	\$ -

Deferred outflows of resources totaling \$4,096 related to OPEB resulting from the Cooperatives contributions to the plan subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2020.

**Note 5: Commitment**

The Cooperative continues to bear a 10 percent risk liability for member's claims in the insurance pools. The Cooperative must use insurance reserves to pay for any negative settlements. The Cooperative's insurance reserve is now \$12,631,191 which exceeds the 10 percent claims loss. The maximum loss based on this year's claims would be \$5,662,640 (\$56,626,395 X 10 percent).

**Note 6: Joint Powers Agreement**

Minnesota Services Cooperative (MSC - hereafter referred to as "the Agency") was established under a joint and cooperative agreement between Southeast Service Cooperative, Northwest Service Cooperative, Lakes Country Service Cooperative, Southwest/West Central Service Cooperative, Resource, Training and Solutions, Northeast Service Cooperative, South Central Service Cooperative and Metropolitan Educational Cooperative Service Unit (Metro ECSU) and National Joint Powers Alliance (NJPA). The general purpose of the Agency is to analyze and identify service opportunities and needs for the participating members as well as facilitate the creation and delivery of the determined programs.

The Agency's fiscal year runs from July 1 to June 30. The governing body of the Agency is made up of individuals from the member cooperatives. An annual budget is presented to and approved by the Board of Directors. Funds may be expended by the Board of Directors or the Executive Council in accordance with established laws and based on budget amounts.

In the event of dissolution of the Agency, assets and liabilities shall be divided among all members. An investment in joint venture is not recorded for MSC because there is no known or explicit method for dividing up the assets and liabilities of MSC in the event of dissolution. We cannot reasonably estimate the Cooperative's portion of MSC.

In August 2017, the Cooperative agreed, along with six other cooperatives throughout the state of Minnesota, to establish a new joint powers entity. The purpose of this agreement is to permit the parties to establish a statewide joint powers entity with enumerated decision-making powers over regional health insurance pools, to purchase and hold a statewide stop-loss insurance policy at higher attachment points for lower fees, to permit limited commingling of Program Funds in a statewide reserve to permit stop loss insurance pooling at lower attachment points for members in regional health insurance pools, and to enter into statewide contracts with third party administrators, employees, consultants, actuaries, attorneys, lobbyists and other vendors. The board shall be comprised of two board members from each party to the agreement. One board member from each party shall be a current sitting member of that party's board of directors, and shall be appointed by the party's board of directors. The second board member shall be the then current Executive Director of that party and shall service in an ex-officio non-voting capacity.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to the Financial Statements  
June 30, 2019

**Note 7: Other Information**

**Risk Management**

The Cooperative is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Cooperative carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNR). The Cooperative's management is not aware of any incurred but not reported claims.

**Note 8: Subsequent Event**

**Flood Costs**

During the year, the Cooperative incurred \$350,834 total costs related to flooding. These costs related to flood cleanup (\$135,039) and repairs such as carpeting, sheetrock, electric, etc. (\$215,795). Insurance reimbursements of \$256,177 were received after June 30, 2019 thus making the Cooperatives net cost from flooding \$94,657.

REQUIRED SUPPLEMENTARY  
INFORMATION

SOUTHEAST SERVICE COOPERATIVE  
INDEPENDENT SCHOOL DISTRICT NO. 921  
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2019

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Required Supplementary Information  
For the Year Ended June 30, 2019

**Schedule of Employer's Share of TRA Net Pension Liability**

Fiscal Year Ending	Cooperative's Proportion of the Net Pension Liability	Cooperative's Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability with the Cooperative (b)	Total (a+b)	Cooperative's Covered Payroll (c)	Cooperative's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.0137 %	\$ 858,543	\$ 80,915	\$ 939,458	\$ 755,195	124.4 %	78.1 %
06/30/17	0.0122	2,435,341	235,780	2,671,121	655,973	407.2	51.6
06/30/16	0.0143	3,410,891	341,595	3,752,486	744,107	504.3	44.9
06/30/15	0.0144	890,782	109,491	1,000,273	756,173	132.3	76.8
06/30/14	0.0124	571,383	40,280	611,663	568,129	107.7	81.1

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's TRA Contributions**

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Cooperative's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/19	\$ 78,413	\$ 78,413	\$ -	\$ 1,017,030	7.71 %
06/30/18	56,640	56,640	-	755,195	7.50
06/30/17	49,198	49,198	-	655,973	7.50
06/30/16	55,808	55,808	-	744,107	7.50
06/30/15	56,713	56,713	-	756,173	7.50

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*



Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended June 30, 2019

**Notes to the Required Supplementary Information - TRA**

Changes in Actuarial Assumptions

2018 - The investment return assumption was changed from 8.50% to 7.50%. The price inflation assumption was lowered from 3.00% to 2.50%. The payroll growth assumption was lowered from 3.50% to 3.00%. The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter. The total salary increase assumption was adjusted by the wage inflation change. The amortization date for the funding of the Unfunded Actuarial Accrued Liability (UAAL) was reset to June 30, 2048 (30 years). A mechanism in the law that provided the TRA Board with some authority to set contribution rates was eliminated.

2017 - The Cost of Living Adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045. 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%

2016 - The assumed investment return was changed from 8.0 percent to 4.66 percent using the Single Equivalent Interest Rate calculation. The single discount rate was changed from 8.0 percent to 4.66 percent. The assumed future salary increases, payroll growth and inflation were changed by a 0.25 percent decrease for price inflation, a 0.50 percent increase for wage inflation and a 2.50 percent decrease in maximum salary increases based on years of service. Mortality assumptions were updated using the RP-2014 tables.

2015 - The assumed post-retirement benefit increase rate was changed from 2.0 percent per year through 2034 and 2.5 percent per year thereafter to 2.0 percent per year for all future years. The assumed investment return was changed from 8.25 percent to 8.0 percent. The single discount rate was changed from 8.25 percent to 8.0 percent.

Changes in Plan Provisions

2018 - The 2018 Omnibus Pension Bill contained a number of changes:

- 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, 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.

2015 - On June 30, 2015, the Duluth Teachers Retirement Fund Association was merged into TRA. This also resulted in a state-provided contribution stream of \$14.377 million until the System becomes fully funded.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended June 30, 2019

**Schedule of Employer's Share of PERA Net Pension Liability**

Fiscal Year Ending	Cooperative's Proportion of the Net Pension Liability	Cooperative's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Cooperative (b)	Total (a+b)	Cooperative's Covered Payroll (c)	Cooperative's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.0140 %	\$ 776,663	\$ 25,372	\$ 802,035	\$ 939,261	85.4 %	79.5 %
06/30/17	0.0148	944,822	11,884	956,706	953,739	100.3	75.9
06/30/16	0.0145	1,177,328	15,387	1,192,715	900,093	132.5	68.9
06/30/15	0.0119	616,720	-	616,720	685,653	89.9	78.2
06/30/14	0.0131	615,372	-	615,372	686,841	89.6	78.7

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's PERA Contributions**

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Cooperative's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/19	\$ 65,541	\$ 65,541	\$ -	\$ 873,878	7.5 %
06/30/18	70,445	70,445	-	939,261	7.5
06/30/17	71,530	71,530	-	953,739	7.5
06/30/16	67,507	67,507	-	900,093	7.5
06/30/15	51,424	51,424	-	685,653	7.5

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Required Supplementary Information  
For the Year Ended June 30, 2019

**Notes to the Required Supplementary Information - PERA**

Changes in Actuarial Assumptions

2018 - 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.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated 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.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2017 - The State's special funding contribution increased from \$6 million to \$16 million.

2015 - 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 increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended June 30, 2019

**Schedule of Changes in the Cooperative's Net OPEB Liability and Related Ratios**

	2019	2018
Total OPEB Liability		
Service Cost	\$ 11,013	\$ 10,692
Interest	2,351	2,120
Benefit payments	(12,768)	0
Net Change in total OPEB Liability	596	12,812
 Total OPEB liability - beginning	 64,463	 51,651
 Total OPEB liability - ending	 <u>\$ 65,059</u>	 <u>\$ 64,463</u>
 Covered - employee payroll	 \$ 1,699,902	 \$ 1,650,390
 Cooperative's net OPEB liability (asset) as a percentage of covered employee payroll	 4%	 4%

*Benefit Changes:*

In 2018, no benefit changes occurred.

*Changes in Assumptions:*

In 2018, no changes in assumptions occurred.

*Changes in Method:*

In 2018, no changes in method occurred.

*Benefit Changes:*

In 2017, no benefit changes occurred.

*Changes in Assumptions:*

In 2017, the following assumptions changes:

The health care trend rates were changed to better anticipate short term and long term medical increases.

The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with the MP-2016 Generational Improvement Scale.

The discount rate was changed from 3.5% to 3.4%.

*Changes in Method:*

In 2017, the actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
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COMBINING AND INDIVIDUAL FUND  
SCHEDULES AND TABLE

SOUTHEAST SERVICE COOPERATIVE  
INDEPENDENT SCHOOL DISTRICT NO. 921  
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2019

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota

Combining Schedule of Revenues, Expenses and Changes in Net Position  
Member Services Cost Centers (Continued on the Following Pages)  
For the Year Ended June 30, 2019

	<b>01-105</b>	<b>01-106/107</b>	<b>01-109</b>	<b>01-210</b>	<b>01-217</b>
	General		Wood Lake	Benefit	Regional
	Administrative	Innovation	Meeting Center	Services	Center of Excellence
Operating Revenues					
Fees from patrons	\$ 110,274	\$ -	\$ 154,651	\$ -	\$ -
Grants					
Local	-	-	-	-	-
State	-	-	-	-	-
Federal	-	-	-	-	1,341,228
Sales and other conversion of assets	-	-	-	-	-
Administrative fees	-	-	-	30,109	-
Other miscellaneous revenue	7,389	-	-	-	-
Total Operating Revenues	<u>117,663</u>	<u>-</u>	<u>154,651</u>	<u>30,109</u>	<u>1,341,228</u>
Operating Expenses					
Salaries	539,635	81,515	79,043	484	854,953
Employee benefits	181,773	27,496	30,535	153	249,467
Contracted services	112,996	7,252	2,960	13,527	2,708
Supplies	6,814	147	3,308	-	4,113
Equipment	85,599	-	617	-	25,277
Communication	7,472	1,552	1,559	1	11,232
Occupancy	27,433	2,905	30,099	4	10,573
Travel	73,321	8,051	20	-	83,009
Printing	3,244	451	353	2	969
Other	6,800	-	-	4,993	-
Administration	(932,777)	(123,894)	2,084	200	98,927
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>112,310</u>	<u>5,475</u>	<u>150,578</u>	<u>19,364</u>	<u>1,341,228</u>
Operating Income (Loss)	<u>5,353</u>	<u>(5,475)</u>	<u>4,073</u>	<u>10,745</u>	<u>-</u>
Nonoperating Revenues (Expenses)					
Interest income	26,059	-	-	-	-
Gain on disposal of capital assets	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>26,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Transfers	31,412	(5,475)	4,073	10,745	-
Transfers in	<u>1,296,184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 1,327,596</u>	<u>\$ (5,475)</u>	<u>\$ 4,073</u>	<u>\$ 10,745</u>	<u>\$ -</u>

<b>01-219</b> Regional Center Center of Excellence-State	<b>01-501</b> SHIP Grant	<b>01-579</b> Mobile Science Lab	<b>01-600</b> Health & Safety Management	<b>01-603</b> WorkForce Development	<b>01-609</b> Coop Purchasing	<b>01-612</b> Rochester Area Math Science Partnership
\$ -	\$ -	\$ 4,825	\$ 155,953	\$ -	\$ -	\$ 49,650
-	-	15,000	-	-	-	19,036
244,648	8,576	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	126,528	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
244,648	8,576	19,825	155,953	-	126,528	68,686
153,821	4,937	1,723	10,172	10,032	19,761	30,787
40,484	3,323	794	5,400	3,557	7,920	11,895
153	-	-	42,502	4,995	13,553	7,063
80	-	6,555	-	-	-	32
-	-	1,936	-	-	-	-
4,364	886	446	1,005	27	796	1,359
-	-	9,414	24,465	-	1,750	3,230
26,893	693	148	3,649	623	1,965	12,352
728	64	19	168	59	32	559
-	-	95	610	-	-	-
18,125	126	268	1,267	-	631	938
-	-	-	-	-	-	-
244,648	10,029	21,398	89,238	19,293	46,408	68,215
-	(1,453)	(1,573)	66,715	(19,293)	80,120	471
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	(1,453)	(1,573)	66,715	(19,293)	80,120	471
-	-	-	-	-	-	-
\$ -	\$ (1,453)	\$ (1,573)	\$ 66,715	\$ (19,293)	\$ 80,120	\$ 471

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota

Combining Schedule of Revenues, Expenses and Changes in Net Position  
Member Services Cost Centers (Continued)  
For the Year Ended June 30, 2019

	<b>01-614</b> Professional Development	<b>01-615</b> Student Academics	<b>01-701</b> SE Minnesota Together	Adjustment to Accrual	Total
Operating Revenues					
Fees from patrons	\$ 108,807	\$ 127,900	\$ -	\$ -	\$ 712,060
Grants					
Local	-	-	1,250	-	35,286
State	-	8,825	-	-	262,049
Federal	-	-	-	-	1,341,228
Sales and other conversion of assets	-	-	-	-	126,528
Administrative fees	-	-	-	-	30,109
Other miscellaneous revenue	-	-	-	-	7,389
Total Operating Revenues	<u>108,807</u>	<u>136,725</u>	<u>1,250</u>	<u>-</u>	<u>2,514,649</u>
Operating Expenses					
Salaries	80,736	54,424	-	-	1,922,023
Employee benefits	43,330	31,333	-	(328,192)	309,268
Contracted services	48,840	25,044	-	-	281,593
Supplies	348	5,462	-	-	26,859
Equipment	-	425	-	(18,355)	95,499
Communication	2,434	1,407	-	-	34,540
Occupancy	6,759	38,125	-	-	154,757
Travel	7,238	6,806	1,017	-	225,785
Printing	1,037	1,922	5	-	9,612
Other	-	-	-	-	12,498
Administration	2,849	2,331	228	-	(928,697)
Depreciation	-	-	-	171,726	171,726
Total Operating Expenses	<u>193,571</u>	<u>167,279</u>	<u>1,250</u>	<u>(174,821)</u>	<u>2,315,463</u>
Operating Income (Loss)	<u>(84,764)</u>	<u>(30,554)</u>	<u>-</u>	<u>174,821</u>	<u>199,186</u>
Nonoperating Revenues (Expenses)					
Interest income	-	-	-	-	26,059
Gain on disposal of capital assets	-	-	-	14,919	14,919
Total Nonoperating Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,919</u>	<u>40,978</u>
Income (Loss) Before Transfers	(84,764)	(30,554)	-	189,740	240,164
Transfers in	-	-	-	-	1,296,184
Increase (Decrease) in Net Position	<u>\$ (84,764)</u>	<u>\$ (30,554)</u>	<u>\$ -</u>	<u>\$ 189,740</u>	<u>\$ 1,536,348</u>



Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Combining Schedule of Revenues, Expenses and Changes in Net Position  
Risk Management Cost Centers  
For the Year Ended June 30, 2019

	09-200 Health Insurance - School Pool	09-220 Health Insurance - Government Pool	09-201 Health Insurance - Operating	Total
Operating Revenues				
Insurance premiums	\$ 25,464,820	\$ 45,469,115	\$ -	\$ 70,933,935
Administrative fees	-	-	2,436,099	2,436,099
Total Operating Revenues	<u>25,464,820</u>	<u>45,469,115</u>	<u>2,436,099</u>	<u>73,370,034</u>
Operating Expenses				
Salaries	-	-	47,955	47,955
Employee benefits	-	-	(4,418)	(4,418)
Contracted services	-	-	388,530	388,530
Communication	-	-	1,653	1,653
Occupancy	-	-	5,475	5,475
Travel	-	-	13,806	13,806
Printing	-	-	897	897
Administration	-	-	918,238	918,238
Insurance premiums and administrative fees	4,744,840	9,234,963	-	13,979,803
Insurance claims	22,374,783	34,251,612	-	56,626,395
Total Operating Expenses	<u>27,119,623</u>	<u>43,486,575</u>	<u>1,372,136</u>	<u>71,978,334</u>
Operating Income (Loss)	(1,654,803)	1,982,540	1,063,963	1,391,700
Nonoperating Revenues				
Interest income	<u>139,944</u>	<u>285,412</u>	<u>232,221</u>	<u>657,577</u>
Income (Loss) Before Transfers	(1,514,859)	2,267,952	1,296,184	2,049,277
Transfers Out	<u>-</u>	<u>-</u>	<u>(1,296,184)</u>	<u>(1,296,184)</u>
Change in Net Position	<u>\$ (1,514,859)</u>	<u>\$ 2,267,952</u>	<u>\$ -</u>	<u>\$ 753,093</u>

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Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Statement of Changes in Assets and Liabilities  
Fiduciary Fund  
For the Year Ended June 30, 2019

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
<b>Assets</b>				
Cash and temporary investments	\$ 67,960	\$ 579,367	\$ 589,008	\$ 58,319
Accounts receivable	3,140	578,595	580,116	1,619
Due from other districts	-	750	-	750
	<u>-</u>	<u>750</u>	<u>-</u>	<u>750</u>
 Total Assets	 <u>\$ 71,100</u>	 <u>\$ 1,158,712</u>	 <u>\$ 1,169,124</u>	 <u>\$ 60,688</u>
<b>Liabilities</b>				
Accounts payable	\$ 36	\$ 545,136	\$ 545,172	\$ -
Due to other districts	71,064	613,576	623,952	60,688
	<u>71,064</u>	<u>613,576</u>	<u>623,952</u>	<u>60,688</u>
 Total Liabilities	 <u>\$ 71,100</u>	 <u>\$ 1,158,712</u>	 <u>\$ 1,169,124</u>	 <u>\$ 60,688</u>



## Fiscal Compliance Report - 6/30/2019

### District: REGION 10 - SOUTHEAST EC (921-83)

	Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>			
Total Revenue	\$2,540,708	<u>\$2,540,709</u>	(\$1)
Total Expenditures	\$2,647,685	<u>\$2,647,680</u>	\$5
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$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>
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$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>
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>			
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>			
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.22 Unassigned Fund Balance	\$5,559,512	<u>\$5,559,514</u>	(\$2)

**02 FOOD SERVICES**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

**06 BUILDING CONSTRUCTION**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

**07 DEBT SERVICE**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

**08 TRUST**

Total Revenue	\$578,595	<u>\$578,595</u>	<u>\$0</u>
Total Expenditures	\$588,971	<u>\$588,972</u>	(\$1)
4.22 Unassigned Fund Balance (Net Assets)	\$60,688	<u>\$60,688</u>	<u>\$0</u>

**20 INTERNAL SERVICE**

Total Revenue	\$74,027,611	<u>\$74,027,608</u>	<u>\$3</u>
Total Expenditures	\$72,001,160	<u>\$72,001,160</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$12,661,799	<u>\$12,661,797</u>	<u>\$2</u>

**25 OPEB REVOCABLE TRUST**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

**45 OPEB IRREVOCABLE TRUST**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

**47 OPEB DEBT SERVICE**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>

Minnesota Department of Education

*Unassigned:*

4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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**04 COMMUNITY SERVICE**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
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Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
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*Non Spendable:*

4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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*Restricted / Reserved:*

4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
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4.31 Community Education	\$0	<u>\$0</u>	<u>\$0</u>
--------------------------	-----	------------	------------

4.32 E.C.F.E	\$0	<u>\$0</u>	<u>\$0</u>
--------------	-----	------------	------------

4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
---	-----	------------	------------

4.44 School Readiness	\$0	<u>\$0</u>	<u>\$0</u>
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4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
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4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
-----------------------------	-----	------------	------------

*Restricted:*

4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
------------------------------	-----	------------	------------

*Unassigned:*

4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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*Non Spendable:*

4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
---------------------------------	-----	------------	------------

*Restricted:*

4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
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4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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*Unassigned:*

4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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SINGLE AUDIT AND OTHER  
REQUIRED REPORTS

SOUTHEAST SERVICE COOPERATIVE  
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Board of Directors  
Southeast Service Cooperative  
Independent School District No. 921  
Rochester, 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 each major enterprise fund of the Southeast Service Cooperative, Rochester, Minnesota, (the Cooperative) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above referenced provisions.

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

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
October 28, 2019

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*

Board of Directors  
Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota

We have audited, in accordance with the 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 each major enterprise fund of the Southeast Service Cooperative, Rochester, Minnesota, (the Cooperative), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated October 28, 2019.

**Internal Control Over Financial Reporting**

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

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

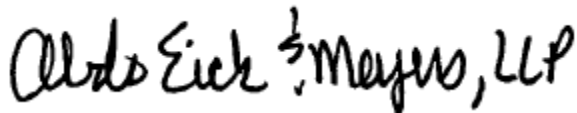
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## Compliance and Other Matters

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

## Purpose of this Report

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



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
October 28, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE

Board of Directors  
Southeast Service Cooperative  
Rochester, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Southeast Service Cooperative, Rochester, Minnesota's (the Cooperative) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2019. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

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

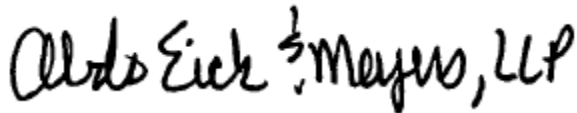
## Report on Internal Control Over Compliance

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

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

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

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.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
October 28, 2019

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Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

<u>Federal Awarding Agency</u>	<u>Pass - through Entity</u>	<u>Program Name</u>	<u>Federal Domestic Assistance Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education	Minnesota Department of Education	Title 1 Grants to Local Educational Agencies (Part A)	84.010	135062821	<u>\$ 1,341,228</u>

Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

**Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Southeast Service Cooperative, Rochester, Minnesota (the Cooperative). The Cooperative's reporting entity is defined in Note 1A to the Cooperative's financial statements. The information in this schedule 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). All federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

**Note 2: Summary of Significant Accounting Policies for Expenditures**

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit-Organizations, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3: Pass-through Entity Identifying Numbers**

Pass-through entity identifying numbers, if any, are presented where available.

**Note 4: Subrecipients**

No federal expenditures presented in this schedule were provided to subrecipients.

**Note 5: Indirect Cost Rate**

During the year ended June 30, 2019, the Cooperative did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



Southeast Service Cooperative  
Independent School District No. 921  
Rochester, Minnesota  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section I - Summary of Auditor's Results**

***Financial Statements***

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

***Federal Awards***

Internal control over major programs	
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 2CFR section 200.516(a)?	No

***Identification of Major Programs/Projects***

	<u>CFDA No.</u>
Title I Grants to Local Education Agencies (Part A)	84.010
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**Section II - Financial Statement Findings**

None

**Section III - Major Federal Award Findings and Questioned Costs**

There are no significant deficiencies, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported in accordance with Uniform Guidance.

**Other Issues**

A Corrective Action Plan is not required because there were no findings required to be reported under the Federal Single Audit Act.