

SOUTH CENTRAL TECHNICAL SERVICE AREA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
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JUNE 30, 2023**

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**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
ORGANIZATION
JUNE 30, 2023**

<u>TITLE</u>	<u>NAME</u>	<u>TERM EXPIRES</u>
Chair	Bill Anderson	12/31/2026
Vice-Chair	Robert Nielsen	12/31/2024
Treasurer/Secretary	John Shanahan	12/31/2024

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
South Central Technical Service Area
Mankato, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and the General Fund of South Central Technical Service Area, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise South Central Technical Service Area's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of South Central Technical Service Area, as of June 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the budgetary comparison schedule on page 19, the defined benefit pension plan schedules on page 20, and the notes to the required supplementary information on pages 21-23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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

Management is responsible for the other information. The other information comprises the organizations information under the introductory section but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and make sure there is nothing materially misstated.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2024, on our consideration of South Central Technical Service Area'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 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 South Central Technical Service Area's internal control over financial reporting and compliance.

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

January 13, 2024

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES -
STATEMENT OF NET POSITION
JUNE 30, 2023**

	General Fund	Adjustments	Governmental Activities
ASSETS			
Cash	\$ 745,041	\$ -	\$ 745,041
Prepaid Expenses	7,447	-	7,447
Capital Assets:			
Property & Equipment, net	-	149,097	149,097
Total Assets	752,488	149,097	901,585
 DEFERRED OUTFLOWS OF RESOURCES			
Defined Benefit Pension Plan	-	88,629	88,629
 COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 752,488	\$ 237,726	\$ 990,214
 LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 9,230	\$ -	\$ 9,230
Unearned Revenue	733,387	-	733,387
Lease Liability	-	12,781	12,781
Total Current Liabilities	742,617	12,781	755,398
Long-term Liabilities:			
Lease Liability	-	12,841	12,841
Net Pension Liability	-	213,841	213,841
Compensated Absences	-	31,228	31,228
Total Long-Term Liabilities	-	257,910	257,910
 DEFERRED INFLOWS OF RESOURCES			
Defined Benefit Pension Plan	-	23,285	23,285
 COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 742,617	\$ 293,976	\$ 1,036,593
 FUND BALANCE/NET POSITION			
Fund Balance:			
Non-Spendable - Prepaid Expenses	\$ 7,447	\$ (7,447)	\$ -
Unassigned	2,424	(2,424)	-
Total Fund Balance	\$ 9,871	\$ (9,871)	\$ -
 Net Position:			
Investments in Capital Assets		\$ 149,097	\$ 149,097
Unrestricted		(195,476)	(195,476)
Total Net Position		\$ (46,379)	\$ (46,379)

See accompanying Notes to the Financial Statements.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	General Fund	Adjustments	Governmental Activities
REVENUES			
Intergovernmental	\$ 460,662	\$ -	\$ 460,662
Interest Earnings	77	-	77
Miscellaneous	4,129	-	4,129
Total Revenues	<u>464,868</u>	<u>-</u>	<u>464,868</u>
EXPENDITURES/EXPENSES			
Conservation:			
Current	434,279	64,297	498,576
Capital Outlay	25,303	(25,303)	-
Total Expenditures/Expenses	<u>459,582</u>	<u>38,994</u>	<u>498,576</u>
EXCESS OF REVENUES OVER/UNDER EXPENDITURES	5,286	(38,994)	(33,708)
Fund Balance/Net Position - Beginning of Year	<u>4,585</u>	<u>(17,256)</u>	<u>(12,671)</u>
FUND BALANCE/NET POSITION - END OF YEAR	<u>\$ 9,871</u>	<u>\$ (56,250)</u>	<u>\$ (46,379)</u>

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of South Central Technical Service Area (the TSA) have been prepared in accordance with generally accepted accounting principles (GAAP) for the year ended June 30, 2023. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The significant accounting policies used by the TSA are discussed below.

Financial Reporting Entity

The South Central Technical Service Area is organized under the provisions of Minnesota Statutes Chapter 103C and is governed by a Board of Supervisors composed of one representative of each Soil and Water Conservation District. The member Soil and Water Conservation Districts are: Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Renville, Sibley, Waseca, and Watonwan.

The purpose of the TSA is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The TSA provides technical and financial assistance to individuals, groups, TSAs, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

The TSA, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service and other agencies, provide technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

As required by generally accepted accounting principles, consideration has been given to other organizations that should be included in the TSA's financial statements for which the nature and significance of their relationship with the TSA are such that exclusion would cause the TSA's financial statements to be misleading or incomplete. There are no organizations that should be presented with the TSA.

Basic Financial Statements

Basic financial statements include information on the TSA's activities as a whole and information on the individual fund of the TSA. These separate presentations are reported in different columns. Each of the statements starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the TSA as a whole.

Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The TSA's net position is reported as restricted and unrestricted. The statement of activities demonstrates the degree to which the expenses of the TSA are offset by revenues.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. The TSA considers all revenues to be available if they are collected within 60 days after the end of the current period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources, when applicable.

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash

Cash consists of a checking account.

Prepaid Expenses

Prepaid expenses are for items that will provide future benefit over the next twelve months.

Capital Assets

The cost of property and equipment is depreciated over the estimated useful life of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Machinery and Equipment is 5 years, Office Equipment is 3 to 5 years, and Vehicles are 5 years. The TSA uses the threshold of \$1,000 for capitalizing assets purchased.

Leases

The TSA determines if an arrangement is a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the TSA's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the TSA's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Leases (Continued)

The lease term may include options to extend or terminate the lease when it is reasonably certain that the TSA will exercise that option.

The TSA has recognized payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position. The TSA accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the TSA treats the components as a single lease unit.

Unearned Revenue

Unearned revenue is recorded for amounts of state, county, and local grant amounts received prior to satisfying all eligibility requirements imposed by the providers.

Compensated Absences

Under the TSA's personnel policies, employees are granted vacation and sick leave pay in varying amounts based on their length of service. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements, and are payable with expendable available resources.

Payments for vacation and sick leave pay will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave pay liabilities at June 30, 2023 are determined on the basis of current salary rates and include salary related payments.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and 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.

Deferred Outflows of Resources

The financial statements for the TSA contain deferred outflows of resources. A deferred outflow 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) until that time. The TSA has one type of deferred outflow which is pension related.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Deferred Inflows of Resources

The financial statements for the TSA contain deferred inflows of resources. A deferred inflow 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 TSA has one type of deferred inflow which is pension related.

Fund Balance

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that are legally or contractually required to be maintained intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties (statute, grantors, bond agreements, etc.). Committed fund balance represents constraints on spending that the government imposes upon itself by a high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or government body delegated to exercise such authority in accordance with the policy established by the Board. Unassigned fund balance is the residual classification for the TSA's General Fund and includes all spendable amounts not contained in the other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the TSA's policy to use restricted first, then the unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned fund balance amounts are available, it is the TSA's policy to use committed first, then assigned, and finally unassigned fund balance amounts.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows in the government-wide statement of net position. Net investments in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Unrestricted net position is the residual classification for the Governmental Activities Fund and includes all spendable amounts not contained in the other classifications.

Use of Estimates

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

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Explanation of Adjustments Column in Statements

Capital Assets: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made if the TSA has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date and reconciles to the amount reported in Note 3 on Capital Assets.

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absences, Lease Liability, and Net Pension Liability the TSA has as of the report date. See Note 5 on Long-Term Liabilities.

Depreciation and Amortization, Net Pension Expense and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation and amortization for the year reported, plus or minus the net pension expense and the change in compensated absences between the reporting year and the previous year.

NOTE 2 – DEPOSITS

Minnesota Statutes §§118A.02 and 118A.04 authorize the TSA to designate a depository for public funds and to invest in Certificates of Deposit.

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a financial institution failure, the TSA's deposits may not be returned to it. The TSA does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statute §118A.03 requires that all TSA deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of U.S. government agency; general obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the 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.

As of June 30, 2023, the TSA's deposits were not exposed to custodial credit risk.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2023, was as follows:

	Beginning	Addition	Deletion	Ending
Equipment	\$ 292,778	\$ 25,303	\$ 7,054	\$ 311,027
Right-to-use Leased Asset	51,024	-	-	51,024
Total	343,802	25,303	7,054	362,051
Less: Accumulated Depreciation	152,049	42,447	7,054	187,442
Less: Accumulated Amortization	12,756	12,756	-	25,512
Total Depreciation/Amortization	164,805			212,954
Net Capital Assets	<u>\$ 178,997</u>			<u>\$ 149,097</u>

Current year depreciation is \$42,447 and amortization is \$12,756.

NOTE 4 – UNEARNED REVENUE

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended June 30, 2023, consisted of the following: BWSR Shared Services Grants \$415,287; NPEA Grants \$318,100; Total \$733,387.

NOTE 5 – LONG-TERM LIABILITIES

Lease Liability

The TSA has a lease agreement for office space. The lease is an annual lease with the TSA planning to continue to lease the property through June 2025. Payments on the agreement are due monthly and commenced in July 2021 with an interest rate of 0.47%. This interest rate was based on the daily treasury report rate as of July 2021.

The following is a summary of future minimum lease payments for the lease liability:

Year ending June 30,

	Principal	Interest	Total
2024	\$ 12,781	\$ 93	\$ 12,874
2025	12,841	33	12,874
Total	<u>\$ 25,622</u>	<u>\$ 126</u>	<u>\$ 25,748</u>

Description of Long-Term Debt

Vacation and Sick Leave Pay

Vacation leave accrual varies from 8.67 to 17.33 hours per month. Sick leave accrual is 8.67 hours per month. The limit on the accumulation of vacation leave is 240 hours and the limit on the accumulation of sick leave is 960 hours. Upon termination of employment from the TSA, employees are paid accrued vacation leave and 20% of accrued sick leave hours after five years of employment.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

Compensated Absences Payable

The amount of the estimated obligation at June 30, 2023 was \$31,228. The TSA’s General Fund finances compensated absences when employees terminate their employment from the TSA.

Changes in Long-Term Debt

The following is a summary of changes in the TSA’s long-term liabilities for the year ended June 30, 2023:

	January 1, 2022	Increases	Decreases	December 31, 2022
Lease Liability	\$ 38,343	\$ -	\$ 25,502	\$ 12,841
Net Pension Liability	115,302	98,539	-	213,841
Compensated Absences	24,142	7,086	-	31,228
Total	<u>\$ 177,787</u>	<u>\$ 105,625</u>	<u>\$ 25,502</u>	<u>\$ 257,910</u>

The current portion of the lease liability as of June 30, 2023, was \$12,781.

NOTE 6 – RISK MANAGEMENT

The TSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; workers’ compensation claims; or natural disasters. The TSA has entered into an agreement with the Minnesota Counties Intergovernmental Trust (MCIT) to cover its liabilities for workers compensation and property and casualty. For other risks, the TSA carries commercial insurance. There were no significant reductions of insurance coverage from the prior year. There have been no settlements in excess of the TSA’s insurance coverage for any of the past three years.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

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

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the TSA was required to contribute 7.50 percent for Coordinated Plan members. The TSA's contributions to the General Employees Fund for the year ended June 30, 2023, were \$21,951. The TSA's contributions were equal to the required contributions as set by state statute.

Pension Costs

At June 30, 2023, the TSA reported a liability of \$213,841 for its proportionate share of the General Employees Fund's net pension liability. The TSA's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the TSA totaled \$6,316.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The TSA's proportionate share of the net pension liability was based on the TSA's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The TSA's proportionate share was .0027 percent at the end of the measurement period and .0027 percent for the beginning of the period.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs (Continued)

TSA's proportionate share of the net pension liability	\$	213,841
State of Minnesota's proportionate share of the net pension liability associated with the TSA		6,316
Total	\$	220,157

For the year ended June 30, 2023, the TSA recognized pension expense of \$14,729 for its proportionate share of the General Employees Plan's pension expense. In addition, the TSA recognized \$944 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

At June 30, 2023, the TSA reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,797	\$ 2,330
Changes in actuarial assumptions	48,396	1,063
Net collective difference between projected and actual investment earnings	13,640	-
Changes in proportion	2,845	19,892
Contributions paid to PERA subsequent to the measurement date	21,951	-
Total	\$ 88,629	\$ 23,285

The \$21,951 reported as deferred outflows of resources related to pensions resulting from TSA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2024	\$ 14,831
2025	13,205
2026	(3,982)
2027	19,339

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Domestic Equity	33.5	5.10
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Total	100.00	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent in the June 30, 2022 actuarial valuation and 7.00 percent in the June 30, 2023 actuarial valuation. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

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

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

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.50 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 General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate is 7.00 percent in the June 30, 2023 actuarial valuation.

Pension Liability Sensitivity

The following presents the TSA'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 TSA's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (5.50%)	Current Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
TSA's proportionate share of the GERF net pension liability:	\$ 337,773	\$ 213,841	\$ 112,198

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.

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES

The TSA is not aware of any existing or pending lawsuits, claims or other actions in which the TSA is a defendant.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 – RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, January 1	\$	4,585
Plus: Excess of Revenues Over Expenditures		5,286
Governmental Fund Balance, December 31	\$	<u>9,871</u>
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets	\$	149,097
Plus: Deferred Outflows of Resources		88,629
Less: Current Liabilities		(12,781)
Less: Long-Term Liabilities		(257,910)
Less: Deferred Inflows of Resources		(23,285)
Net Position	\$	<u>(46,379)</u>

NOTE 10 – RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$	5,286
Capital Outlay		25,303
Pension Expense, net		(14,729)
Principal payments on lease liability		12,721
Right-of-use asset amortization		(12,756)
The cost of capital assets are allocated over the capital assets' useful life at the government-wide level.		(42,447)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.		(7,086)
Change in Net Position	\$	<u>(33,708)</u>

NOTE 11 – SUBSEQUENT EVENTS

The TSA has evaluated events and transactions for potential recognition or disclosure through January 13, 2024, the date the financial statements were available to be issued.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	Original/ Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental:			
Local Grants	\$ 39,000	\$ -	\$ (39,000)
State Grants	379,000	460,662	81,662
Total Intergovernmental	418,000	460,662	42,662
Interest Earnings	-	77	77
Miscellaneous	1,000	4,129	3,129
Total Revenues	419,000	464,868	45,868
EXPENDITURES			
District Operations:			
Personnel Services	334,000	354,137	(20,137)
Other Services and Charges	80,000	76,013	3,987
Supplies	5,000	2,765	2,235
Capital Outlay	-	25,303	(25,303)
Total District Operations	419,000	458,218	(39,218)
Project Expenditures:			
State	-	1,364	(1,364)
Total Project Expenditures	-	1,364	(1,364)
Total Expenditures	419,000	459,582	(40,582)
EXCESS OF REVENUES OVER/UNDER EXPENDITURES	-	5,286	5,286
Fund Balance - Beginning of Year	4,585	4,585	-
FUND BALANCE - END OF YEAR	\$ 4,585	\$ 9,871	\$ 5,286

See accompanying Notes to the Required Supplementary Information.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
JUNE 30, 2023**

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 11,327	\$ 11,327	\$ -	\$ 153,556	7.38%
2016	\$ 12,216	\$ 12,216	\$ -	\$ 162,885	7.50%
2017	\$ 18,926	\$ 18,926	\$ -	\$ 252,350	7.50%
2018	\$ 12,882	\$ 12,882	\$ -	\$ 171,760	7.50%
2019	\$ 16,240	\$ 16,240	\$ -	\$ 216,527	7.50%
2020	\$ 17,907	\$ 17,907	\$ -	\$ 238,760	7.50%
2021	\$ 14,628	\$ 14,628	\$ -	\$ 195,040	7.50%
2022	\$ 15,343	\$ 15,343	\$ -	\$ 204,571	7.50%
2023	\$ 21,951	\$ 21,951	\$ -	\$ 292,682	7.50%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each year-end were determined June 30.

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
June 30, 2023**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0021%	\$ 98,647	\$ -	\$ 98,647	\$ 111,747	88.28%	78.19%
2016	0.0026%	\$ 134,745	\$ -	\$ 134,745	\$ 153,556	87.75%	78.20%
2017	0.0026%	\$ 211,107	\$ 2,826	\$ 213,933	\$ 162,885	131.34%	68.90%
2018	0.0039%	\$ 248,973	\$ 3,144	\$ 252,117	\$ 252,350	99.91%	75.90%
2019	0.0026%	\$ 144,237	\$ 4,581	\$ 148,818	\$ 171,760	86.64%	79.50%
2020	0.0031%	\$ 171,392	\$ 5,333	\$ 176,725	\$ 216,527	81.62%	80.20%
2021	0.0033%	\$ 197,850	\$ 6,277	\$ 204,127	\$ 238,760	85.49%	79.10%
2022	0.0027%	\$ 115,302	\$ 3,543	\$ 118,845	\$ 195,040	60.93%	87.00%
2023	0.0027%	\$ 213,841	\$ 6,316	\$ 220,157	\$ 204,571	107.62%	76.70%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30 of prior year.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

NOTE 1 – DEFINED BENEFIT PENSION PLAN – CHANGES IN ACTUARIAL METHODS AND ACTUARIAL ASSUMPTIONS

The following changes were reflected in the valuation of the General Employees Retirement Plan performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

2022 -

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

2021 -

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

2020 -

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for year 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

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.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2023**

NOTE 1 – DEFINED BENEFIT PENSION PLAN – CHANGES IN ACTUARIAL METHODS AND ACTUARIAL ASSUMPTIONS (CONTINUED)

2017 - The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 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 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

NOTE 2 – DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS

The following changes were reflected in the valuation of the General Employees Retirement Plan performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2023**

NOTE 2 – DEFINED BENEFIT PENSION PLAN - CHANGES IN SIGNIFICANT PLAN PROVISIONS (CONTINUED)

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

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.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Supervisors adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Supervisors. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$459,582; Budget \$419,000; Excess \$40,582.

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Supervisors
South Central Technical Service Area
Mankato, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of South Central Technical Service Area as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the South Central Technical Service Area's basic financial statements, and have issued our report thereon dated January 13, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the South Central Technical Service Area failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures; other matters may have come to our attention regarding the South Central Technical Service Area's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

January 13, 2024

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors
South Central Technical Service Area
Mankato, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of South Central Technical Service Area as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the South Central Technical Service Area's basic financial statements, and have issued our report thereon dated January 13, 2024.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as items 2023-001, 2023-002, and 2023-003 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

South Central Technical Service Area's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the TSA's responses to the internal control findings identified in our audit and described in the accompany Schedule of Findings and Recommendations. The South Central Technical Service Area's responses were not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this 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 entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

January 13, 2024

**SOUTH CENTRAL TECHNICAL SERVICE AREA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2023**

2023-001: Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, has physical access to the related assets, and has responsibility or authority to record the transaction.

Condition and Context: Substantially all accounting procedures are performed by one person.

Prior Year Finding: Yes, 2022-001.

Cause: This condition is common to organizations of this size due to the limited number of staff.

Effect: The lack of an ideal segregation of duties subjects the TSA to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The TSA has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board of Supervisors.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
JUNE 30, 2023**

2023-002: Financial Statement Presentation

Criteria: The TSA's management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition and Context: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. Management has accepted responsibility for the financial statements and reviewed them.

Prior Year Finding: Yes, 2022-002.

Cause: The TSA has a limited number of personnel with financial reporting experience.

Effect: The design of the controls over the financial reporting process would affect the ability of the TSA to report its financial data consistently with the assertions of the management in the financial statements.

Recommendation: We recommend that the TSA be aware of the requirements for fair presentation of the financial statements in accordance with the generally accepted accounting principles. Should the TSA elect, based upon an analysis of costs and benefits, to establish the full oversight of the financial statement preparation of an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us; complete the disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

Management Response: The TSA understands that this is required communications for the preparation of the financial statements.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
JUNE 30, 2023**

2023-003: Audit Adjustments

Criteria: The TSA's management is responsible for establishing and maintaining internal controls for the proper recording of all the TSA's accounting transactions, including account coding, reporting of accruals, and net position.

Condition and Context: As part of the audit, we proposed material adjustments for reclassifying transactions to the proper accounts and preparing note disclosures. Management has reviewed and approved the audit adjustments.

Cause: The TSA has a limited number of personnel with financial reporting experience.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the TSA to provide accurate accrual basis financial information.

Recommendation: We recommend that TSA management be constantly aware of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

Management Response: The TSA will continue to work at eliminating the need for audit adjustments.