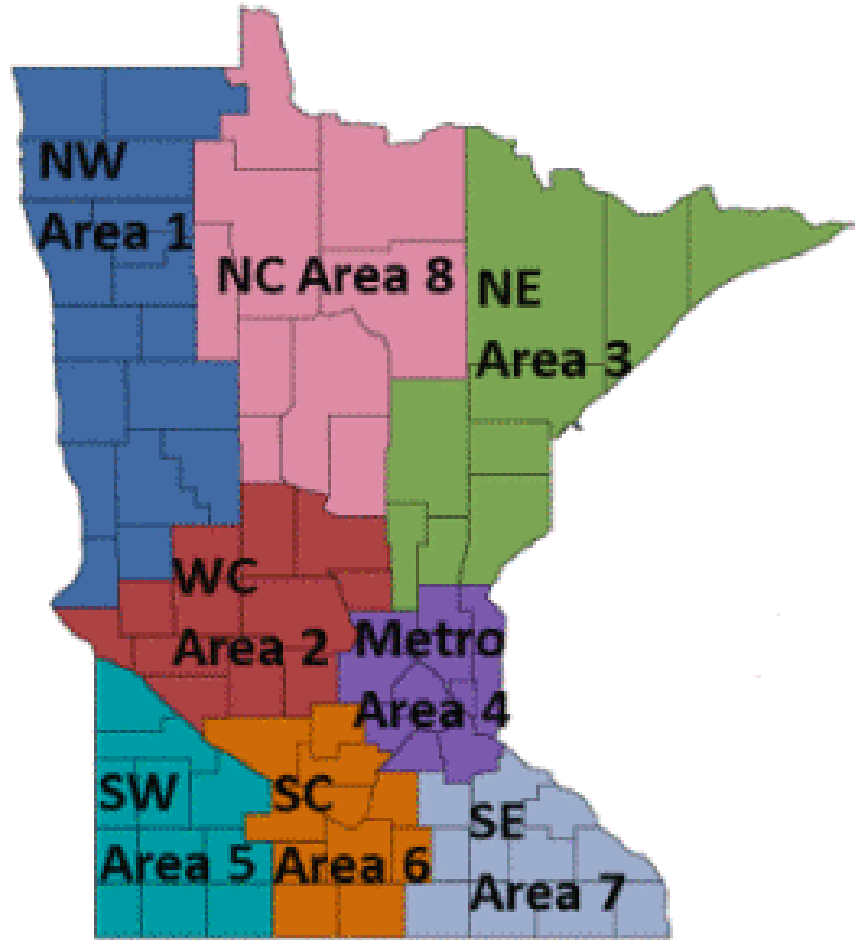


South Central Technical Service Area

Financial Report

Fiscal Year 2016

July 1,
2015
June 30,
2016



South Central TSA—6

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2016

South Central Technical Service Area Staff

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MANAGEMENT’S DISCUSSION AND ANALYSIS

The South Central Technical Service Area's discussion and analysis provides an overview of the South Central TSA’s financial activities for the fiscal year ended June 30, 2016. Since this information is designed to focus on the current years activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter (beginning on page 3) and the SWCD’s financial statements (beginning on page 7).

FINANCIAL HIGHLIGHTS

- The South Central TSA received funds from the new 2016 Enhanced Share Service Grants.
- A new Administrative Specialist was added to the staff right near the end of the fiscal year.
- The South Central TSA received additional equipment funds through the Non Point Engineering Assistance Grant
- Billable rates for engineering services have been better applied to multiple different grant sources through all the SWCDs in the area and through the Non Point Engineering Assistance Grant

USING THIS ANNUAL REPORT

This annual report consists of two parts: management’s discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 7 and 8) provide information about the activities of the South Central TSA as a whole and present a longer-term view of the South Central TSA’s finances. Fund financial statements start on page 9. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the South Central TSA’s operations in more detail than the government-wide statements by providing information about the South Central TSA’s most significant funds. Since South Central TSA’s are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. The South Central TSA has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

Our analysis of the South Central TSA as a whole begins on page 4. One of the most important questions asked about the South Central TSA’s finances is, “Is the South Central TSA as a whole better or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the South Central TSA as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the South Central TSA’s net position and changes in them. You can think of the South Central TSA’s net position — the difference between assets and liabilities—as one way to measure the SWCD’s financial health, or financial position. Over time, increases or decreases in the South Central TSA’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors to assess the overall health of the South Central TSA.

In the Statement of Net Position and the Statement of Activities, the South Central TSA presents Governmental activities. All of the South Central TSA’s basic services are reported here. Appropriations from the county and state finance most activities.

Reporting the South Central TSA’s General Fund

Fund Financial Statements

Our analysis of the South Central TSA’s general fund begins on page 5. The fund financial statements begin on page 7 and provide detailed information about the general fund—not the South Central TSA as a whole. The South Central TSA presents only a general fund, which is a governmental fund. All of the South Central TSA’s basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the South Central TSA’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the South Central TSA’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE SOUTH CENTRAL TSA AS A WHOLE

The South Central TSA’s combined net assets decreased, from \$135,068 to \$612. Last year net assets decreased by \$134,456 mostly due to the change in accounting practices GASB 68. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the South Central TSA’s governmental and business-type activities.

Table 1: Net Assets

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$417,224	\$118,778
Capital assets	43,931	58,574
Total assets	\$461,155	\$177,352
Long-term liabilities	148,611	12,365
Current liabilities	336,556	29,919
Total liabilities	\$485,167	\$42,284
Net assets		
Invested in capital assets,	43,931	58,574
Unrestricted	(43,319)	76,494
Total net assets	\$612	\$135,068

Net assets of the South Central TSA governmental activities decreased \$134,456. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$76,494 at July 1, 2015 to a \$-43,319 at the end of this year. This deficit arose primarily due to the Change In Accounting Principle that was implemented this year. The Current liabilities of \$336,556 is due to the influx of 2016 Enhanced Shared Services Grants received this year to add staff and capacity to the South Central TSA.

Table 2: Changes in Net Assets

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Program Revenues:		
Intergovernmental	\$107,688	\$225,004
Charges for Services	121,236	41,441
General Revenues	4,801	6,242
Total Revenues	\$233,725	\$282,688
Program Expenses:		
Conservation	252,402	246,728
Total Expenses	\$252,402	\$246,728

The South Central TSA's total revenues decreased by \$48,963, likely due to differences in grant funds being deferred for future earnings. The total cost of all programs and services decreased by \$5,674 due additional expenses of software this year.

Governmental Activities

The cost of all governmental activities this year was \$252,402 compared to \$246,728 is due to increase costs of supplies, wages, and software purchases.

THE SOUTH CENTRAL TSA's FUNDS

As the South Central TSA completed the year, its general fund (as presented in the balance sheet on pages 7-8) reported a combined fund balance of \$612 which was a decreased compared to last year's total of \$135,068 mainly due to the Change in Accounting Principle.

General Fund Budgetary Highlights

The actual changes to appropriations (expenditures) were \$7,615 under the final budget amounts. The budget had planned for a much more services and charges, but the South Central TSA did end up over spending in supplies,

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of 2016, the South Central TSA had \$43,931 invested in a broad range of capital assets, including Dodge Dakota, GMC Sierra Pickup, Survey Equipment, and other Office and Field Equipment. (See Table 3 below) The ending amount represents a net decrease of current assets of \$14,644 over last year.

Table 3: Capital Assets at Year-end

	Beginning	Addition	Deletion	Ending
Equipment:	\$159,646	\$ 0	\$ 0	\$ 159,646
Less: Accumulated Depreciation	101,071			115,715
Net Capital Assets	\$ 58,575			\$ 43,931

There was no major purchases this past year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The South Central TSA's elected and appointed officials considered many factors when setting the fiscal-year 2016 budget and fees that will be charged for the for the business-type activities, including County and State Budgets reductions and increasing need for grants applied and awarded to the District for conservation practices.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Blue Earth County Soil and Water Conservation District located at 1160 South Victory Drive, Suite #3, Mankato, MN 56001 or phone the office at (507) 345-4744 or email Jerad Bach, District Manager at jerad.bach@blueearthswcd.org; or John Billings, Assistant at john.billings@blueearthswcd.org.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET**

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and Investments	\$ 305,230	\$ -	\$ 305,230
Accounts receivable	39,598	-	39,598
Due from other governments	72,396	-	72,396
Prepaid Items			
Capital Assets:			
Equipment (net of accumulated depreciation)	-	43,931	43,931
Total Assets	<u>417,224</u>	<u>43,931</u>	<u>461,155</u>
Deferred Outflows of Resources			
Defined Benefit Pension Plan	-	30,372	30,372
Combined Assets and Deferred Outflows of Resources			
	<u>\$ 417,224</u>	<u>\$ 74,303</u>	<u>\$ 491,527</u>
Liabilities			
Current Liabilities:			
Unearned Revenue	\$ 329,722	\$ -	\$ 329,722
Accrued Wages	3,219	-	3,219
Accounts Payable	3,615	-	3,615
Deposit on Sales		-	-
Long-term Liabilities:			
Net Pension Liability	-	134,745	134,745
Due within one year	-	13,866	13,866
Total Liabilities	<u>336,556</u>	<u>148,611</u>	<u>485,167</u>
Deferred Inflows of Resources			
Defined Benefit Pension Plan	-	5,748	5,748
Combined Liabilities and Deferred Inflows of Resources			
	<u>\$ 336,556</u>	<u>\$ 154,359</u>	<u>\$ 490,915</u>
Fund Balance/Net Position			
Fund Balance			
Nonspendable - Prepaids	\$ 39,598	\$ (39,598)	\$ -
Assigned - Compensated Absences	13,866	(13,866)	-
Unassigned	27,204	(27,204)	-
Total Fund Balance	<u>\$ 80,668</u>	<u>\$ (80,668)</u>	<u>\$ -</u>
Net Position			
Investments in Capital Assets		\$ 43,931	\$ 43,931
Unrestricted		(43,319)	(43,319)
Total Net Position		<u>\$ 612</u>	<u>\$ 612</u>

Notes are an integral part of the basic financial statements.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 107,688	\$ -	\$ 107,688
Charges for Services	121,236	-	121,236
Investment Earnings	13	-	13
Miscellaneous	4,788	-	4,788
Total Revenues	<u>\$ 233,725</u>	<u>\$ -</u>	<u>\$ 233,725</u>
Expenditures/Expenses			
Conservation			
Current	\$ 236,257	\$ 16,145	\$ 252,402
Capital Outlay	-	-	-
Total Expenditures/Expenses	<u>\$ 236,257</u>	<u>\$ 16,145</u>	<u>\$ 252,402</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ (2,532)</u>	<u>\$ (16,145)</u>	<u>\$ (18,677)</u>
Fund Balance/Net Position July 1	\$ 83,200	\$ 46,209	\$ 135,068
Change in Accounting Principle		<u>(115,779)</u>	<u>(115,779)</u>
Fund Balance/Net Position June 30	<u>\$ 80,668</u>	<u>\$ (85,715)</u>	<u>\$ 612</u>

Notes are an integral part of the basic financial statements.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues			
Intergovernmental			
County	\$ -	\$ -	\$ -
Local	-	-	-
Federal	-	-	-
State Grant	176,500	107,688	(68,812)
Total Intergovernmental	<u>\$ 176,500</u>	<u>\$ 107,224</u>	<u>\$ (68,812)</u>
Charges for Services	<u>\$ 65,000</u>	<u>\$ 121,236</u>	<u>\$ 56,236</u>
Miscellaneous			
Interest Earnings	\$ 12	\$ 13	\$ 1
Other	2,488	5,252	2,764
Total Miscellaneous	<u>\$ 2,500</u>	<u>\$ 5,265</u>	<u>\$ 2,765</u>
Total Revenues	<u>\$ 244,000</u>	<u>\$ 233,725</u>	<u>\$ (9,811)</u>
Expenditures			
District Operations			
Personnel Services	\$ 206,572	\$ 205,448	\$ 1,124
Other Services and Charges	36,300	22,827	13,473
Supplies	1,000	7,983	(6,983)
Capital Outlay	-	-	-
Total District Operations	<u>\$ 243,872</u>	<u>\$ 236,257</u>	<u>\$ 7,615</u>
Project Expenditures			
District	\$ -	\$ -	\$ -
State	-	-	-
Total Project Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenditures	<u>\$ 243,872</u>	<u>\$ 236,257</u>	<u>\$ 7,615</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ 128</u>	<u>\$ (2,532)</u>	<u>\$ (2,196)</u>
Fund Balance - July 1	\$ 135,068	\$ 135,068	\$ -
Change in Accounting Principle	<u>(115,779)</u>	<u>(115,779)</u>	
Fund Balance - June 30	<u><u>\$ 19,417</u></u>	<u><u>\$ 16,757</u></u>	<u><u>\$ (2,196)</u></u>

Notes are an integral part of the basic financial statements.

**BREAKDOWN OF COUNTY REVENUE
2016**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$
WATER PLAN MONEY	\$
WETLAND MONEY	\$
FEEDLOT MONEY	\$
ABANDONED WELL	\$
DNR SHORELAND	\$
TOTAL	<u>\$0.00</u>

NOTE: The total should agree with amount reported as **County Revenue** in the "Budgetary Comparison Schedule."

List other "non-cash" county support (i.e. rent, health insurance, etc.) that does not show up anywhere on your annual report.

**UNEARNED REVENUE BREAKDOWN
2015**

Balance of BWSR Service Grants: \$329,722.05

Balance of unencumbered BWSR Cost-Share Grants: Current fiscal year FY2016 \$ 0.00

Previous fiscal year FY2015 \$ 0.00

Previous fiscal year FY2014 \$ 0.00

Balance of encumbered BWSR Cost-Share Grant (list each contract separately):

FY	Contract No.	Contract Amount	T & A Encumbered

Total of all Cost-Share Encumbrances \$0

Subtotal of other funds: \$ 0.00

TOTAL OF ALL UNEARNED REVENUE: \$ 329,722.05

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1 - Summary of Significant Accounting Policies

The financial reporting policies of the South Central Technical Service Area conform to generally accepted accounting principles. The Governmental Accounting Standards District (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Changes in Accounting Principles

During the year ended December 31, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

Financial Reporting Entity

The NPEA – South Central Technical Service Area (SC TSA) was 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 Districts' are: Blue Earth, Brown, Faribault, LeSueur, Martin, McLeod, Nicollet, Renville, Sibley, Waseca, and Watonwan.

The purpose of the Joint Powers Board 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 SC TSA, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service and other agencies, provides 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.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Position and The Statement of Activities) report information on all of the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Fund Financial Statements

The government reports the General Fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred.

Investment earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Budget Information

The South Central TSA adopts an estimated revenue and expenditure budget for the general fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require District approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

Use of Estimates

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Capital assets are reported on a net (depreciated) basis. General capital assets are valued at historical or estimated historical cost.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for as an adjustment to net position.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the South Central TSA has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. The length of the expense recognition period for deferred amounts is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District. Those committed amounts cannot be used for any other purposes unless the District removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District or the District Administrator who has been delegated that authority by District resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The The South Central TSA applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 District 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 the Capital Assets Note.

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absence Liability the District has as of the report date. See note on Long-Term Liabilities.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Depreciation 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 for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in the note on Long-Term Liabilities.

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is from 2-4 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 District, employees are paid 20% of accrued vacation leave and sick leave hours.

Risk Management

The South Central TSA is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The South Central TSA pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 2 - Detailed Notes

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

Equipment

Balance July 1, 2015	\$58,575
Additions	\$ 0
2016 depreciation	\$14,644
Balance June 30, 2016	\$43,931

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

The cost of property, plant and equipment is depreciated over the estimated useful lives 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. The useful lives of property, plant and equipment for the purpose of computing depreciation is 5 to 10 years for Machinery and Equipment. Current year depreciation is \$14,644.

The South Central TSA uses the threshold of \$5,000 for capitalizing assets purchased.

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, 2016, consists of the following: BWSR Service Grants, \$329,722.05; Total, \$329,722.05.

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2015 are:

Balance July 1, 2015	\$ 12,365
Net Change in Compensated Absences	<u>1,501</u>
Balance June 30, 2016	<u>13,866</u>

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the South Central TSA to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping 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.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, the District's deposits were not exposed to custodial credit risk.

**SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 3 - Defined Benefit Pension Plans

Plan Description - Public Employees Retirement Association

The District contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with Minn. Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-1855.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. Coordinated Plan members were required to contribute 6.5% of their annual covered salary. The District is required to contribute 7.5% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2016, 2015 and 2014 were \$12,216, \$11,327, and \$8,102, respectively. The South Central TSA's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 4 - Operating Leases

The South Central TSA sub leases office space on a yearly basis. Under the current agreement, total costs for 2016 were \$6,397.

Note 5 - Stewardship, Compliance and Accountability

Excess of expenditures over budget – The General Fund had expenditures under budget for the year as follows: Expenditures \$236,257; Budget \$243,872; Under \$7,615.

Note 6 - Reconciliation of Fund Balance to Net Position

Governmental Fund Balance, July 1	\$135,068
Plus: Excess of Revenue Over Expenditures	<u>(115,779)</u>
Governmental Fund Balance, June 30	<u>\$612</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	43,931
Plus: Deferred Outflows of Resources	30,372
Less: Long-Term Liabilities	148,611
Less: Deferred Inflows of Resources	<u>5,748</u>
Net Position	<u>612</u>