SOUTH CENTRAL
TECHNICAL SERVICE AREA

FINANCIAL STATEMENTS

JUNE 30, 2018

SOUTH CENTRAL TECHNICAL SERVICE AREA
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL SECTION	**Page**
Independent Auditor's Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position and Governmental Fund Balance Sheet	6
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balance	7
Notes to the Financial Statements	8
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Statement, Budget and Actual, General Fund	20
Schedule of Contributions	21
Schedule of Proportionate Share of Net Pension Liability	21
ADDITIONAL REPORTS	
Minnesota Legal Compliance Report	22
Report on Internal Control	23
Schedule of Findings and Responses	25

PETERSON COMPANY LTD.
CERTIFIED PUBLIC ACCOUNTANTS

570 Cherry Drive | Waconia, Minnesota 55387
952.442.4408 | Fax: 952.442.2211 | www.pclcpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of South Central Technical Service Area, Mankato, Minnesota, as of and for the year ended June 30, 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of South Central Technical Service Area as of June 30, 2018, and the respective changes in financial position for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5, the budgetary comparison statement on page 20, and defined benefit pension plan schedules on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, on our consideration of the 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 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 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
Certified Public Accountants
Waconia, Minnesota

December 27, 2018

The South Central Technical Service Area's discussion and analysis provides an overview of the TSA's financial activities for the fiscal year ended June 30, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the TSA as a whole and present a longer-term view of the TSA's finances. For governmental activities, financial statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the TSA's operations in more detail than the government-wide statements by providing information about the TSA's general fund. Since TSAs are single-purpose, special-purpose government units, the TSA combines the government-wide and fund financial statements into a single presentation.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the TSA's finances is, "Is the 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 TSA as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by 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 TSA's net position and changes in them. You can think of the TSA's net position — the difference between assets and liabilities — as one way to measure the TSA's financial health, or financial position. Over time, increases or decreases in the TSA's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the TSA.

In the Statement of Net Position and the Statement of Activities, the TSA presents governmental activities. All of the TSA's basic services are reported here. Appropriations from the state finance most activities.

Reporting the TSA's General Fund

Our analysis of the TSA's general fund is part of this report. The fund financial statements provide detailed information about the general fund—not the TSA as a whole. The TSA presents only a general fund, which is a governmental fund. All of the TSA's basic services are reported in the general fund, which focuses on how money flows into and out of the fund 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 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 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 TSA AS A WHOLE

Our analysis focuses on the net position and change in net position of the TSA's governmental activities.

Net Position:

	Governmental Activities	
	6/30/18	**6/30/17**
Current Assets	$ 666,748	$ 416,019
Capital Assets, net of depreciation	90,928	124,725
Deferred Outflows of Resources	127,773	112,074
Combined Assets and Deferred Outflows of Resources	$ 885,449	$ 652,818
Current Liabilities	$ 599,898	$ 448,625
Long-Term Liabilities	263,525	224,590
Deferred Inflows of Resources	42,355	17,149
Combined Liabilities and Deferred Inflows of Resources	$ 905,778	$ 690,364
Investment in Capital Assets	$ 90,928	$ 124,725
Unrestricted	(111,257)	(162,271)
Total Net Position	$ (20,329)	$ (37,546)

Net position of the TSA's governmental activities increased by $17,217. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from $(162,271) at June 30, 2017 to $(111,257) at June 30, 2018.

Change in Net Position:

	Governmental Activities	
Revenues	6/30/18	6/30/17
Intergovernmental	$ 288,369	$ 380,731
Charges for Services	66,023	75,444
Interest Earnings	96	78
Miscellaneous	1,570	4,817
Total Revenues	$ 356,058	$ 461,070
Expenses		
Conservation	$ 338,841	$ 442,649
Total Expenses	$ 338,841	$ 442,649
Increase (decrease) in Net Position	$ 17,217	$ 18,421

The TSA's total revenues decreased by $105,012. The total cost of programs and services decreased by $103,808.

THE TSA'S GENERAL FUND

As the TSA completed the year, its general fund as presented in the balance sheet reported a fund balance of $66,850, which is above last year's total of $(32,606).

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were $147,513 below the final budgeted amounts. The most significant negative variance of $190,992 occurred in State Revenue. The most significant positive variance of $94,436 occurred in Personnel Services.

CAPITAL ASSETS & LONG-TERM LIABILITIES

Capital Assets
As of June 30, 2018, the TSA had $90,928 invested in capital assets. This amount represents a net decrease (including additions and deletions) of $33,797 from last year.

Long-Term Liabilities
As of June 30, 2018, the TSA had $14,552 in accrued compensated absences and $248,973 in Net Pension Liability. This compares to $13,483 as of June 30, 2017 for accrued compensated absences and $211,107 in Net Pension Liability.

CONTACTING THE TSA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the TSA's finances and to show the TSA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the South Central Technical Service Area at 1160 South Victory Dr., Suite 3, Mankato, MN 56001. The phone number is 507-345-4744.

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2018

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	$ 563,442	$ -	$ 563,442
Prepaid Items	6,209	-	6,209
Due from Other Government	97,097	-	97,097
Capital Assets:			
Equipment (net of accumulated depreciation)	-	90,928	90,928
Total Assets	666,748	90,928	757,676
Deferred Outflows of Resources			
Defined Benefit Pension Plan	-	127,773	127,773
Combined Assets and Deferred Outflows of Resources	$ 666,748	$ 218,701	$ 885,449
Liabilities			
Current Liabilities:			
Accrued Wages	$ 4,810	$ -	$ 4,810
Unearned Revenue	595,088	-	595,088
Long-term Liabilities:			
Net Pension Liability	-	248,973	248,973
Compensated Absences	-	14,552	14,552
Total Liabilities	599,898	263,525	863,423
Deferred Inflows of Resources			
Defined Benefit Pension Plan	-	42,355	42,355
Combined Liabilities and Deferred Inflows of Resources	$ 599,898	$ 305,880	$ 905,778
Fund Balance/Net Position			
Fund Balance			
Nonspendable - Prepaids	$ 6,209	$ (6,209)	$ -
Unassigned	60,641	(60,641)	-
Total Fund Balance	$ 66,850	$ (66,850)	$ -
Net Position			
Investments in Capital Assets		$ 90,928	$ 90,928
Unrestricted		(111,257)	(111,257)
Total Net Position		$ (20,329)	$ (20,329)

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, 2018

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	$ 288,278	$ 91	$ 288,369
Charges for Services	66,023	-	66,023
Interest Earnings	96	-	96
Miscellaneous	1,570	-	1,570
Total Revenues	$ 355,967	$ 91	$ 356,058
Expenditures/Expenses			
Conservation			
Current	$ 256,511	$ 82,330	$ 338,841
Total Expenditures/Expenses	$ 256,511	$ 82,330	$ 338,841
Excess of Revenues Over (Under) Expenditures/Expenses	$ 99,456	$ (82,239)	$ 17,217
Fund Balance/Net Position July 1	$ (32,606)	$ (4,940)	$ (37,546)
Fund Balance/Net Position June 30	$ 66,850	$ (87,179)	$ (20,329)

Notes are an integral part of the basic financial statements.

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 Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Financial Reporting Entity

The South Central Technical Service Area (TSA) was organized under the provisions of Minnesota Statues Chapter 103C and is governed by a Board of Supervisors composed of one representative of each Soil and Water Conservation TSA. The member Soil and Water TSAs' 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, 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 TSA 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 TSA.

The Statement of Activities demonstrates the degree to which the direct expenditures of a given function or segment are offset by program revenues. Direct expenditures 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 expenditures 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.

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 TSA 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.

Interest 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.

<u>Budget Information</u>
The TSA adopts an estimated revenues and expenditures 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 Board approval. Appropriations lapse at year-end. The TSA does not use encumbrance accounting.

<u>Use of Estimates</u>
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.

<u>Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position</u>

<u>Assets</u>
Cash is 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.

Receivables are collectible within one year.

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

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

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

Long-Term Liabilities
Compensated absences and Net Pension Liability are accounted for as an adjustment to net position.

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

Investments 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 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 (expense) until that time. The TSA 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. They also include differences between expected and actual experience, changes in assumptions and changes in proportion, which are recognized over a four-year period.

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.

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the TSA 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 are 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 are 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 TSA. Those committed amounts cannot be used for any other purposes unless the TSA 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 TSA 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 TSA or the Board Administrator who has been delegated that authority by Board 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 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.

Subsequent Events

In preparing these financial statements, the TSA has evaluated events and transactions for potential recognition or disclosure through December 27, 2018, the date the financial statements were available to be issued.

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 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 Absences and Net Pension Liability the TSA has as of the report date. See note on Long-Term Liabilities.

Depreciation, 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 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.

Vacation and Sick Leave

Under the TSA's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. 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 all accrued vacation leave and 20% of sick leave hours after 5 years of employment.

Risk Management

The 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 TSA 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 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.

	Beginning	Addition	Deletion	Ending
Equipment	$225,414	$0	$0	$225,414
Less: Accumulated Depreciation	100,689	33,797	0	134,486
Net Capital Assets	$124,725			$90,928

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. For the purpose of computing depreciation, the useful life for Machinery and Equipment is 5 to 10 years. Current year depreciation is $33,797.

The TSA uses the threshold of $1,000 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, 2018, consists of the following: Shared Service Grants $538,879; NPEA $56,209; Total $595,088.

Long-Term Liabilities
Changes in long-term liabilities for the period ended June 30, 2018 are:

	July 1, 2017	Increases	Decreases	June 30, 2018
Net Pension Liability	$ 211,107	$ 37,866	$ -	$ 248,973
Compensated Absences	13,483	1,069	-	14,552
Total	$ 224,590	$ 38,935	$ -	$ 263,525

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. Minnesota Statute 118A.03 requires that all TSA deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, 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.

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 TSA's deposits may not be returned to it. The TSA does not have a deposit policy for custodial credit risk. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The TSA has no additional deposit policies addressing custodial credit risk. Of the $563,442 bank balance on June 30, 2018, $313,442 was neither insured, collateralized nor covered by FDIC.

Note 3 - Defined Benefit Pension Plans

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

All full-time and certain part-time employees of the TSA are covered by the General Employees Plan. 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.

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

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 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 (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

Contributions
Minnesota Statute 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 2018; 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, 2018, were $12,882. The TSA's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs
On June 30, 2018, the TSA reported a liability of $248,973 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 to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the TSA totaled $3,144. The net pension liability was measured as of June 30, 2017, 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 proportion 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, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. On June 30, 2017, the TSA's proportion was .0039 percent, which was an increase of .0013 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the TSA recognized pension expense of $47,373 for its proportionate share of General Employees Plan's pension expense. In addition, the TSA recognized an additional $91 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

Pension Costs (continued)

On June 30, 2018, 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	$ 8,205	$ 10,678
Changes in actuarial assumptions	43,855	24,960
Difference between projected and actual investment earnings	-	6,717
Changes in Proportion	62,831	-
Contributions paid to PERA subsequent to the measurement date	12,882	-
Total	$ 127,773	$ 42,355

The $12,882 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	$ 33,835
2020	30,227
2021	17,467
2022	(8,993)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

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

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 Stocks	39	5.10
International Stocks	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	0.00
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statute. Based on these assumptions, the fiduciary net positions 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.

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERF net pension liability:	$ 386,176	$ 248,973	$ 136,648

Pension Plan Fiduciary Net Position

Detailed information about the 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 4 - Operating Leases

The TSA sub leases office space on a yearly basis. Under the current agreement, total cost for 2018 were $10,040.

Note 5 – Commitments and Contingencies

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

Note 6 - Reconciliation of Fund Balance to Net Position

Governmental Fund Balance, July 1	$ (32,606)
Plus: Excess of Revenues Over Expenditures	99,456
Governmental Fund Balance, June 30	$ 66,850
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	$ 90,928
Plus: Deferred Outflows of Resources	127,773
Less: Long-Term Liabilities	(263,525)
Less: Deferred Inflows of Resources	(42,355)
Net Position	$ (20,329)

Note 7 - Reconciliation of Change in Fund Balance to Change in Net Position

Change in Fund Balance	$	99,456
Pension Expense, net		(47,373)
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(33,797)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.		(1,069)
Change in Net Position	$	17,217

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues			
Intergovernmental			
Local	$ -	$ 77,770	$ 77,770
State	401,500	210,508	(190,992)
Total Intergovernmental	$ 401,500	$ 288,278	$ (113,222)
Charges for Services	$ -	$ 66,023	$ 66,023
Miscellaneous			
Interest Earnings	$ -	$ 96	$ 96
Other	2,500	1,570	(930)
Total Miscellaneous	$ 2,500	$ 1,666	$ (834)
Total Revenues	$ 404,000	$ 355,967	$ (48,033)
Expenditures			
District Operations			
Personnel Services	$ 312,224	$ 217,788	$ 94,436
Other Services and Charges	46,800	33,147	13,653
Supplies	45,000	2,087	42,913
Total District Operations	$ 404,024	$ 253,022	$ 151,002
Project Expenditures			
State	$ -	$ 3,489	$ (3,489)
Total Project Expenditures	$ -	$ 3,489	$ (3,489)
Total Expenditures	$ 404,024	$ 256,511	$ 147,513
Excess of Revenues Over (Under) Expenditures	$ (24)	$ 99,456	$ 99,480
Fund Balance - July 1	$ (32,606)	$ (32,606)	$ -
Fund Balance - June 30	$ (32,630)	$ 66,850	$ 99,480

Notes are an integral part of the basic financial statements.

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA

SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
JUNE 30, 2018

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	$ -	$ 153,566	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%

* 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.

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
JUNE 30, 2018

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0021%	$ 98,647	$ 111,747	88.28%	78.19%
2016	0.0026%	$ 134,745	$ 153,566	87.74%	78.20%
2017	0.0026%	$ 211,107	$ 162,885	129.60%	68.90%
2018	0.0039%	$ 248,973	$ 252,350	98.66%	75.90%

* 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.

PETERSON COMPANY LTD.
CERTIFIED PUBLIC ACCOUNTANTS
570 Cherry Drive | Waconia, Minnesota 55387
952.442.4408 | Fax: 952.442.2211 | www.pclcpas.com

MINNESOTA LEGAL COMPLIANCE REPORT

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 of Mankato, Minnesota, as of and for the year ended June 30, 2018, 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 December 27, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the TSA is not allowed to issue debt.

In connection with our audit, South Central Technical Service Area failed to comply with the Deposits and Investments provision of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, as described in the Schedule of Findings and Responses as item 2018-002.) However, our audit was not directed primarily toward obtaining the 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.

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
Certified Public Accountants
Waconia, Minnesota

December 27, 2018

PETERSON COMPANY LTD.
CERTIFIED PUBLIC ACCOUNTANTS
570 Cherry Drive | Waconia, Minnesota 55387
952.442.4408 | Fax: 952.442.2211 | www.pclcpas.com

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of South Central Technical Service Area, Mankato, Minnesota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise South Central Technical Service Area's basic financial statements, and have issued our report thereon dated December 27, 2018.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Technical Service Area's internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Technical Service Area's internal control.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control as described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a significant deficiency.

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

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

South Central Technical Service Area's Response to Findings

South Central Technical Service Area's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. South Central Technical Service Area's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

December 27, 2018

2018-001 Segregation of Duties

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

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

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.

2018-002 Deficiencies in Collateral for Deposits

Criteria: Minnesota Statute 118A.03 provides certain specific collateral requirements for deposits as follows:

Subdivision 1 - For deposits beyond insurance

To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. For the purposes of this section, "banking day" has the meaning given in Federal Reserve Board Regulation CC, Code of Federal Regulations, title 12, section 229.2(f), and incorporates a financial institution's cutoff hour established under section 336.4-108.

Subdivision 2 - In lieu of surety bond

The following are the allowable forms of collateral in lieu of a corporate surety bond:

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

Subdivision 3 - Amount

The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Subdivision 4 - Assignment
Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

Subdivision 5 - Withdrawal of excess collateral
A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the government entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subdivision 6 - Default
For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

Subdivision 7 - Safekeeping
All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.

Condition / context: At June 30, 2018, the TSA held deposits of $563,442. Deposits up to $250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral refund was $344,786 ($313,442 x 110%). The TSA was unable to provide evidence that such deposits were properly collateralized in accordance with State Statutes.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the TSA obtain sufficient collateral to comply with Minnesota Statute 118A.03.

Management Response: Management is working to get this resolved by having the bank pledge the necessary collateral.