

**SOUTH CENTRAL  
TECHNICAL SERVICE AREA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
TABLE OF CONTENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>FINANCIAL SECTION</b>	<b>Page</b>
Independent Auditor's Report	1
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position and Governmental Fund Balance Sheet	3
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balance	4
Notes to the Financial Statements	5
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Statement, Budget and Actual, General Fund	17
Schedule of Contributions	18
Schedule of Proportionate Share of Net Pension Liability	18
<b>ADDITIONAL REPORTS</b>	
Minnesota Legal Compliance Report	19
Report on Internal Control	20
Schedule of Findings and Responses	22

## 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, 2019, 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, 2019, and the respective changes in financial position of the governmental activities and 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*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison statement on page 17 and defined benefit pension plan schedules on page 18 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 2, 2019, 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 2, 2019

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
MANKATO, MINNESOTA  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2019**

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash	\$ 707,967	\$ -	\$ 707,967
Prepaid Expenses	6,947	-	6,947
Accounts Receivable	1,660	-	1,660
Due from Other Governments	14,075	-	14,075
Capital Assets:			
Equipment (net of accumulated depreciation)	-	57,130	57,130
Total Assets	<u>730,649</u>	<u>57,130</u>	<u>787,779</u>
<b>Deferred Outflows of Resources</b>			
Defined Benefit Pension Plan	-	84,498	84,498
<b>Combined Assets and Deferred Outflows of Resources</b>			
	<u>\$ 730,649</u>	<u>\$ 141,628</u>	<u>\$ 872,277</u>
<b>Liabilities</b>			
Current Liabilities:			
Accrued Wages	\$ 4,579	\$ -	\$ 4,579
Due to Other Governments	10,658	-	10,658
Unearned Revenue	659,421	-	659,421
Long-term Liabilities:			
Net Pension Liability	-	144,237	144,237
Compensated Absences	-	17,430	17,430
Total Liabilities	<u>674,658</u>	<u>161,667</u>	<u>836,325</u>
<b>Deferred Inflows of Resources</b>			
Defined Benefit Pension Plan	-	107,542	107,542
<b>Combined Liabilities and Deferred Inflows of Resources</b>			
	<u>\$ 674,658</u>	<u>\$ 269,209</u>	<u>\$ 943,867</u>
<b>Fund Balance/Net Position</b>			
Fund Balance			
Nonspendable - Prepays	\$ 6,947	\$ (6,947)	\$ -
Unassigned	49,044	(49,044)	-
Total Fund Balance	<u>\$ 55,991</u>	<u>\$ (55,991)</u>	<u>\$ -</u>
Net Position			
Investments in Capital Assets		\$ 57,130	\$ 57,130
Unrestricted		(128,720)	(128,720)
Total Net Position		<u>\$ (71,590)</u>	<u>\$ (71,590)</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, 2019**

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 356,058	\$ -	\$ 356,058
Charges for Services	43,071	-	43,071
Interest Earnings	181	-	181
Miscellaneous	9,039	-	9,039
Total Revenues	<u>\$ 408,349</u>	<u>\$ -</u>	<u>\$ 408,349</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 419,208	\$ 40,402	\$ 459,610
Total Expenditures/Expenses	<u>\$ 419,208</u>	<u>\$ 40,402</u>	<u>\$ 459,610</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ (10,859)</u>	<u>\$ (40,402)</u>	<u>\$ (51,261)</u>
Fund Balance/Net Position July 1	<u>\$ 66,850</u>	<u>\$ (87,179)</u>	<u>\$ (20,329)</u>
Fund Balance/Net Position June 30	<u><u>\$ 55,991</u></u>	<u><u>\$ (127,581)</u></u>	<u><u>\$ (71,590)</u></u>

Notes are an integral part of the basic financial statements.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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 Statutes Chapter 103C and is governed by a Board of Supervisors composed of one representative of each Soil and Water Conservation District. The member Soil and Water Conservation Districts are: Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Renville, Sibley, Waseca, and Watonwan.

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

The TSA, 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 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.

**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.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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.

**Budget Information**

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.

**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**

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.



**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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:

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 a future period(s) 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) 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

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

(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 non-spendable 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 Board. Those committed amounts cannot be used for any other purposes unless the Board 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 Board 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 restricted 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 2, 2019, the date the financial statements were available to be issued.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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 accrued sick leave 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.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 2 – Detailed Notes**

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation:

	<u>Beginning</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending</u>
Equipment	\$ 225,414	\$ -	\$ 25,000	\$ 200,414
Less: Accumulated Depreciation	134,486	33,798	25,000	143,284
Net Capital Assets	<u>\$ 90,928</u>			<u>\$ 57,130</u>

The cost of property 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 \$33,798.

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, 2019, consists of the following: Shared Services Grants \$526,914; NPEA Grant \$132,507; Total \$659,421.

Long-Term Liabilities

Changes in long-term liabilities for the period ended June 30, 2019 are:

	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Net Pension Liability	\$ 248,973	\$ -	\$ 104,736	\$ 144,237
Compensated Absences	14,552	2,878	-	17,430
Total	<u>\$ 263,525</u>	<u>\$ 2,878</u>	<u>\$ 104,736</u>	<u>\$ 161,667</u>

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.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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. As of June 30, 2019, the TSA's deposits were not exposed to custodial credit risk.

**Note 3 – Defined Benefit Pension Plan**

**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. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full 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 Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the TSA was required to contribute 7.50 percent for Coordinated Plan members. The TSA's contributions to the General Employees Fund for the year ended June 30, 2019, were \$16,240. The TSA's contributions were equal to the required contributions as set by state statute.

Pension Costs

At June 30, 2019, the TSA reported a liability of \$144,237 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 \$4,581. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The TSA's proportionate share of the net pension liability was based on the TSA's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the TSA's proportionate share was .0026 percent, which was an increase/decrease of .0013 percent from its proportionate share measured as of June 30, 2017.

The TSA's proportionate share of the net pension liability	\$	144,237
State of Minnesota's proportionate share of the net pension liability associated with the TSA		4,581
Total	\$	148,818

For the year ended June 30, 2019, the TSA recognized pension credit expense of \$3,726 for its proportionate share of the General Employees Plan's pension expense. In addition, the TSA recognized an additional \$1,068 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.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

Pension Costs (continued)

At June 30, 2019, the TSA reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
Differences between expected and actual economic experience	\$ 5,641	\$ 8,072
Changes in actuarial assumptions	24,644	21,753
Difference between projected and actual investment earnings	-	717
Changes in Proportion	37,973	77,000
Contributions paid to PERA subsequent to the measurement date	16,240	-
Total	<hr/> <u>\$ 84,498</u>	<hr/> <u>\$ 107,542</u>

The \$16,240 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2020	\$ 3,580
2021	(9,181)
2022	(35,640)
2023	1,957

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and 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 males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

Changes in actuarial assumptions:

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

Changes in plan provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio 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. This does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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	36	5.10
International Stocks	17	5.30
Bonds	20	0.75
Alternative Assets	25	5.90
Cash	2	0.00
Total	100%	



**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all 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%)
TSA's proportionate share of the GERF net pension liability:	\$ 234,404	\$ 144,237	\$ 69,807

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**Note 4 – Operating Leases**

The TSA leases office space on a yearly basis. Under the current agreement total costs for 2019 were \$21,727.

**Note 5 – Stewardship, Compliance and Accountability**

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$419,208; Budget \$402,500; Excess \$16,708.

**Note 6 – 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.

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 7 – Reconciliation of Fund Balance to Net Position**

Governmental Fund Balance, July 1	\$	66,850
Less: Excess of Expenditures Over Revenues		(10,859)
Governmental Fund Balance, June 30	\$	55,991
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets	\$	57,130
Plus: Deferred Outflows of Resources		84,498
Less: Long-Term Liabilities		(161,667)
Less: Deferred Inflows of Resources		(107,542)
Net Position	\$	(71,590)

**Note 8 – Reconciliation of Change in Fund Balance to Change in Net Position**

Change in Fund Balance	\$	(10,859)
Pension Expense, net		(3,726)
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(33,798)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.		(2,878)
Change in Net Position	\$	(51,261)

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
MANKATO, MINNESOTA  
BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2019**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
<b>Revenues</b>			
Intergovernmental			
Local	\$ 36,500	\$ -	\$ (36,500)
State	365,000	356,058	(8,942)
Total Intergovernmental	<u>\$ 401,500</u>	<u>\$ 356,058</u>	<u>\$ (45,442)</u>
Charges for Services	<u>\$ -</u>	<u>\$ 43,071</u>	<u>\$ 43,071</u>
Miscellaneous			
Interest Earnings	\$ -	\$ 181	\$ 181
Other	1,000	9,039	8,039
Total Miscellaneous	<u>\$ 1,000</u>	<u>\$ 9,220</u>	<u>\$ 8,220</u>
Total Revenues	<u>\$ 402,500</u>	<u>\$ 408,349</u>	<u>\$ 5,849</u>
<b>Expenditures</b>			
TSA Operations			
Personnel Services	\$ 307,100	\$ 272,551	\$ 34,549
Other Services and Charges	61,400	74,650	(13,250)
Supplies	4,000	2,951	1,049
Capital Outlay	30,000	-	30,000
Total TSA Operations	<u>\$ 402,500</u>	<u>\$ 350,152</u>	<u>\$ 52,348</u>
Project Expenditures			
State	\$ -	\$ 69,056	\$ (69,056)
Total Project Expenditures	<u>\$ -</u>	<u>\$ 69,056</u>	<u>\$ (69,056)</u>
Total Expenditures	<u>\$ 402,500</u>	<u>\$ 419,208</u>	<u>\$ (16,708)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ (10,859)</u>	<u>\$ (10,859)</u>
Fund Balance - July 1	\$ 66,850	\$ 66,850	\$ -
Fund Balance - June 30	<u>\$ 66,850</u>	<u>\$ 55,991</u>	<u>\$ (10,859)</u>

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, 2019**

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%
2019	\$ 16,240	\$ 16,240	\$ -	\$ 216,527	7.50%

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

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
GENERAL EMPLOYEES RETIREMENT FUND  
JUNE 30, 2019**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0021%	\$ 98,647	\$ -	\$ 98,647	\$ 111,747	88.28%	78.19%
2016	0.0026%	\$ 134,745	\$ -	\$ 134,745	\$ 153,566	87.74%	78.20%
2017	0.0026%	\$ 211,107	\$ 2,826	\$ 213,933	\$ 162,885	131.34%	68.90%
2018	0.0039%	\$ 248,973	\$ 3,144	\$ 252,117	\$ 252,350	99.91%	75.90%
2019	0.0026%	\$ 144,237	\$ 4,581	\$ 148,818	\$ 171,760	86.64%	79.50%

\* 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.

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the general fund of South Central Technical Service Area of Mankato, Minnesota, as of and for the year ended June 30, 2019, 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 2, 2019.

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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the TSA is not allowed to collect taxes.

In connection with our audit, nothing came to our attention that caused us to believe that the South Central Technical Service Area failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 2, 2019

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

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 and the general fund of South Central Technical Service Area, Mankato, Minnesota, as of and for the year ended June 30, 2019, 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 2, 2019.

**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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Central Technical Service Area's internal control over financial reporting.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control as described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a significant deficiency.

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

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

*Peterson Company Ltd*

PETERSON COMPANY LTD  
Certified Public Accountants  
Waconia, Minnesota

December 2, 2019

**SOUTH CENTRAL TECHNICAL SERVICE AREA  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2019**

**2019-001 Segregation of Duties**

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

Condition: 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 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.