SOUTH CENTRAL TECHNICAL SERVICE AREA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

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MANKATO, MINNESOTA
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SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
ORGANIZATION
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TITLE	NAME	TERM EXPIRES
Chair	Bruce Hulke	6/30/2023
Vice-Chair	Bill Anderson	6/30/2023
Treasurer/Secretary	John Shanahan	6/30/2023

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
South Central Technical Service Area
Mankato, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and the General Fund of South Central Technical Service Area, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the governmental activities and the General Fund of South Central Technical Service Area, as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Central Technical Service Area's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

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. Although not a part of the basic financial statements, such missing information, 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 the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 21, the defined benefit pension plan schedules on page 22, and the notes to the required supplementary information on pages 23 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Central Technical Service Area's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2022, on our consideration of South Central Technical Service Area's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Technical Service Area's internal control over financial reporting and compliance.

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

December 26, 2022

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES -
STATEMENT OF NET POSITION
JUNE 30, 2022

	General Fund	Adjustments	Governmental Activities
ASSETS			
Cash	$ 798,939	$ -	$ 798,939
Prepaid Items	5,792	-	5,792
Capital Assets:			
Property & Equipment, net	-	178,997	178,997
Total Assets	804,731	178,997	983,728
DEFERRED OUTFLOWS OF RESOURCES			
Defined Benefit Pension Plan	-	99,422	99,422
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 804,731	$ 278,419	$ 1,083,150
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 9,684	$ -	$ 9,684
Accrued Wages	6,407	-	6,407
Unearned Revenue	784,055	-	784,055
Lease Liability	-	12,721	12,721
Long-term Liabilities:			
Lease Liability	-	25,622	25,622
Net Pension Liability	-	115,302	115,302
Compensated Absences	-	24,142	24,142
Total Liabilities	800,146	177,787	977,933
DEFERRED INFLOWS OF RESOURCES			
Defined Benefit Pension Plan	-	117,888	117,888
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 800,146	$ 295,675	$ 1,095,821
FUND BALANCE/NET POSITION			
Fund Balance:			
Nonspendable - Prepaid Items	$ 5,792	$ (5,792)	$ -
Unassigned	(1,207)	1,207	-
Total Fund Balance	$ 4,585	$ (4,585)	$ -
Net Position:			
Investments in Capital Assets		$ 178,997	$ 178,997
Unrestricted		(191,668)	(191,668)
Total Net Position		$ (12,671)	$ (12,671)

See accompanying Notes to the Financial Statements.

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	General Fund	Adjustments	Governmental Activities
REVENUES			
Intergovernmental	$ 430,044	$ -	$ 430,044
Charges for Services	10,342	-	10,342
Interest Earnings	80	-	80
Miscellaneous	6,988	-	6,988
Total Revenues	447,454	-	447,454
EXPENDITURES/EXPENSES			
Conservation:			
Current	334,488	(6,195)	328,293
Capital Outlay	147,539	(147,539)	-
Total Expenditures/Expenses	482,027	(153,734)	328,293
Excess of Revenues Over/Under Expenditures	(34,573)	153,734	119,161
Other Financing Sources:			
Initial Lease Proceeds	51,024	(51,024)	-
Total Financing Sources	51,024	(51,024)	-
NET CHANGE IN FUND BALANCE	16,451	102,710	119,161
Fund Balance/Net Position - Beginning of Year	(11,866)	(119,966)	(131,832)
FUND BALANCE/NET POSITION - END OF YEAR	$ 4,585	$ (17,256)	$ (12,671)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of South Central Technical Service Area (the TSA) have been prepared in accordance with generally accepted accounting principles (GAAP) for the year ended June 30, 2022. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The significant accounting policies used by the TSA are discussed below.

Financial Reporting Entity

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

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

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

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

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

Basic Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

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

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

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

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

Cash

Cash consists of a checking account.

Prepaid Items

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

Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Leases

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

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

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

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

The TSA has recognized payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position.

The TSA accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the TSA treats the components as a single lease unit.

Unearned Revenue

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

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

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

Payments for vacation and sick leave pay will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave pay liabilities at June 30, 2022 are determined on the basis of current salary rates and include salary related payments.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The financial statements for the TSA contain deferred outflows of resources. A deferred outflow of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The TSA has one type of deferred outflow which is pension related.

Deferred Inflows of Resources

The financial statements for the TSA contain deferred inflows of resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The TSA has one type of deferred inflow which is pension related.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Balance

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

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

Net Position

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

Explanation of Adjustments Column in Statements

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

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absences, Lease Liability, and Net Pension Liability the TSA has as of the report date. See Note 4 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 and amortization for the year reported, plus or minus the net pension expense and the change in compensated absences between the reporting year and the previous year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The TSA adopted the requirement of the guidance effective July 1, 2021, and has applied the provisions of this standard to the beginning of the period of adoption.

NOTE 2 – DEPOSITS

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

Custodial Credit Risk - Deposits

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

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

As of June 30, 2022, the TSA's deposits were not exposed to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022, was as follows:

	Beginning	Addition	Deletion	Ending
Equipment	$ 294,333	$ 96,515	$ 98,070	$ 292,778
Right-to-use Lease Asset	-	51,024	-	51,024
Total Capital Assets	294,333			343,802
Less: Accumulated Depreciation	211,239	38,880	98,070	152,049
Less: Accumulated Amortization	-	12,756	-	12,756
Total Depreciation/Amortization	211,239			164,805
Total Capital Assets, net	$ 83,094			$ 178,997

Current year depreciation is $38,880 and amortization is $12,756.

NOTE 4 – LONG-TERM LIABILITIES

Lease Liability

On July 1, 2021, the TSA entered into a $51,024 lease liability agreement for office space. The lease is an annual lease with the TSA planning to continue to lease the property through June 2025. Payments on the agreement are due monthly and commenced in July 2021 with an interest rate of 0.47%. This interest rate was based on the daily treasury report rate as of July 2021.

Minimum Debt Payments

Minimum annual principal and interest payments required for the lease liability is as follows:

	Lease Liability	
Year Ending June 30,	Principal	Interest
2023	$ 12,721	$ 148
2024	12,781	88
2025	12,841	28
Total	$ 38,343	$ 264

Current Portion of Lease Liability	$ 12,721
Non-Current Portion of Lease Liability	25,622
Total	$ 38,343

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

Description of Long-Term Debt

Vacation and Sick Leave Pay

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

Compensated Absences Payable

The amount of the estimated obligation at June 30, 2022 was $24,142. The TSA's General Fund finances compensated absences when employees terminate their employment from the TSA.

Changes in Long-Term Debt

The following is a summary of changes in the TSA's long-term liabilities for the year ended June 30, 2022:

	Beginning	Increases	Decreases	Ending
Lease Liability	$ -	$ 51,024	$ 12,681	$ 38,343
Net Pension Liability	197,850	-	82,548	115,302
Compensated Absences	23,928	214	-	24,142
Total	$ 221,778	$ 51,238	$ 95,229	$ 177,787

The current portion of the lease liability as of June 30, 2022, was $12,721.

NOTE 5 – RISK MANAGEMENT

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

NOTE 6 – 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.

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

Benefits Provided

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

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

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

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 2022 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, 2022, were $15,343. The TSA's contributions were equal to the required contributions as set by state statute.

Pension Costs

At June 30, 2022, the TSA reported a liability of $115,302 for its proportionate share of the General Employees Fund's net pension liability. The TSA's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the TSA totaled $3,543.

The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The TSA's proportionate share was .0027 percent at the end of the measurement period and .0033 percent for the beginning of the period.

TSA's proportionate share of the net pension liability	$ 115,302
State of Minnesota's proportionate share of the net pension liability associated with the TSA	3,543
Total	$ 118,845

For the year ended June 30, 2022, the TSA recognized a pension credit of $45,364 for its proportionate share of the General Employees Plan's pension expense. In addition, the TSA recognized $286 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs (Continued)

At June 30, 2022, the TSA reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,107	$ 3,620
Changes in actuarial assumptions	70,401	3,057
Net collective difference between projected and actual investment earnings	-	81,373
Changes in Proportion	12,571	29,838
Contributions paid to PERA subsequent to the measurement date	15,343	-
Total	$ 99,422	$ 117,888

The $15,343 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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2023	$ 3,400
2024	(5,590)
2025	(7,216)
2026	(24,403)

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Long-Term Expected Return on Investment

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

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

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

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

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.50%)	Current Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
TSA's proportionate share of the GERF net pension liability:	$ 235,157	$ 115,302	$ 16,953

Pension Plan Fiduciary Net Position

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

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

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

NOTE 8 – SUBSEQUENT EVENTS

The TSA has evaluated events and transactions for potential recognition or disclosure through December 26, 2022, the date the financial statements were available to be issued.

NOTE 9 – RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, July 1	$	(11,866)
Plus: Excess of Revenues over Expenditures		16,451
Governmental Fund Balance, June 30	$	4,585
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets	$	178,997
Plus: Deferred Outflows of Resources		99,422
Less: Short-Term Liabilities		(12,721)
Less: Long-Term Liabilities		(165,066)
Less: Deferred Inflows of Resources		(117,888)
Net Position	$	(12,671)

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

Change in Fund Balance	$	16,451
Capital Outlay		96,515
Pension Credit, net		45,364
Principal payments on lease liability		12,681
Right-of-use asset amortization		(12,756)
The cost of capital assets are allocated over the capital assets' useful life at the government-wide level.		(38,880)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.		(214)
Change in Net Position	$	119,161

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2022

	Original/ Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental:			
State Grants	$ 370,000	$ 430,044	$ 60,044
Local Grants	39,000	-	(39,000)
Total Intergovernmental	409,000	430,044	21,044
Charges for Services	-	10,342	10,342
Interest Earnings	-	80	80
Miscellaneous	1,000	6,988	5,988
Total Revenues	410,000	447,454	37,454
EXPENDITURES			
District Operations:			
Personnel Services	321,000	261,471	59,529
Other Services and Charges	76,000	69,280	6,720
Supplies	5,000	3,194	1,806
Capital Outlay	8,000	147,539	(139,539)
Total District Operations	410,000	481,484	(71,484)
Project Expenditures:			
State	-	543	(543)
Total Project Expenditures	-	543	(543)
Total Expenditures	410,000	482,027	(72,027)
Excess of Revenues Over/Under Expenditures	-	(34,573)	(34,573)
Other Financing Sources			
Initial Lease Proceeds	-	51,024	51,024
Total Financing Sources	-	51,024	51,024
NET CHANGE IN FUND BALANCE	-	16,451	16,451
Fund Balance - Beginning of Year	(11,866)	(11,866)	-
FUND BALANCE - END OF YEAR	$ (11,866)	$ 4,585	$ 16,451

See accompanying Notes to the Required Supplementary Information.

SOUTH CENTRAL TECHNICAL SERVICE AREA
MANKATO, MINNESOTA

SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
JUNE 30, 2022

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

* 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, 2022

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

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

SOUTH CENTRAL TECHNICAL SERVICE AREA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS

2021 -

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

2020 -

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

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

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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

2016 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

NOTE 1 – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS (CONTINUED)

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

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

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

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

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

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures $482,027; Budget $410,000; Excess $72,027.

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of South Central Technical Service Area as of and for the year ended June 30, 2022, 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 26, 2022.

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

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

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

December 26, 2022

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of South Central Technical Service Area as of and for the year ended June 30, 2022, 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 26, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as items 2022-001 and 2022-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

South Central Technical Service Area's Responses to Findings

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

Purpose of This Report

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

Peterson Company Ltd

Peterson Company Ltd
Waconia, Minnesota

December 26, 2022

2022-001: Segregation of Duties

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

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

Prior Year Finding: Yes, 2021-001.

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

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

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

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

2022-002: Financial Statement Presentation

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

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

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

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

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

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