

**SOUTH WASHINGTON COUNTY
TELECOMMUNICATIONS COMMISSION
ANNUAL FINANCIAL REPORTS
December 31, 2021 and 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
South Washington County Telecommunications Commission
Cottage Grove, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying statements of net position of South Washington County Telecommunications Commission as of and for the years ended December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Washington County Telecommunications Commission, as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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. 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 Washington County Telecommunications Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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 Washington County Telecommunications Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of South Washington County Telecommunications Commission'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 Washington County Telecommunications Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the budgetary comparison information, schedule of employer's PERA contributions and schedule of employer's share of PERA net pension liability on pages 24 through 28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2022 on our consideration of the Commission'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 the effectiveness of South Washington County Telecommunications Commission's 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 Washington County Telecommunications Commission's internal control over financial reporting and compliance.

Hamington Langer & Associates

June 22, 2022

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021 and 2020

The management of the South Washington County Telecommunications Commission (SWCTC) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2021 and 2020.

Basic Financial Statements

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. SWCTC is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. These are followed by notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. In addition to the basic financial statements, this report also contains required supplementary information pertaining to the schedule of revenue and the retirement plan of SWCTC.

The statements of net position present information on all of SWCTC's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of SWCTC is improving or deteriorating.

The schedules of revenue, expenses, and changes in net position reports the operating revenue and expenses and non-operating revenue and expenses of SWCTC for the fiscal year with the difference being combined with any capital grants to determine the change in net position for the fiscal year. That change combined with the net position at the end of the previous year total to the net position at the end of the current fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalent balance total to the cash and cash equivalent balance at the end of the current fiscal year.

The information contained in the basic financial statements is used as the basis for the discussion presented on the following pages, surrounding SWCTC's activities for the fiscal years ended December 31, 2021 and 2020.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021 and 2020

Financial Highlights

As of December 31, 2021 and 2020, SWCTC had a net position balance of \$3,888,684 and \$3,838,808, respectively, of which \$2,492,124 and \$2,409,293, respectively, represented the net amount invested in capital assets. As of December 31, 2021 and 2020, \$1,400,000 was designated for capital equipment replacement.

SWCTC's net position increased \$49,876 during the year. The increase in net position is attributable to \$130,000 higher than budgeted revenues.

Overview of the Commission's Basic Financial Statements

Net Position. Net position may serve over time as a useful indicator of an organization's financial position. In the case of the Commission, net position totaled \$3,888,684 at the end of the current year, a 1% increase from the prior year.

The following is a condensed comparative summary of the Organization's net position at December 31:

<u>Net Position</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current and other assets	\$ 2,146,506	\$ 2,202,557	\$ 2,044,574
Capital assets, net	<u>2,492,124</u>	<u>2,409,293</u>	<u>2,292,172</u>
Total Assets	<u>4,638,630</u>	<u>4,611,850</u>	<u>4,336,746</u>
Deferred Outflows	<u>219,693</u>	<u>67,236</u>	<u>42,246</u>
Liabilities			
Current and other liabilities	424,768	433,253	330,305
Noncurrent liabilities	<u>281,851</u>	<u>383,709</u>	<u>315,140</u>
Total Liabilities	<u>706,619</u>	<u>816,962</u>	<u>645,445</u>
Deferred Inflows	<u>263,020</u>	<u>23,316</u>	<u>81,863</u>
Net Position			
Net investment in capital assets	2,492,124	2,409,293	2,292,172
Unrestricted	<u>1,396,560</u>	<u>1,429,515</u>	<u>1,359,512</u>
Total Net Position	<u>\$ 3,888,684</u>	<u>\$ 3,838,808</u>	<u>\$ 3,651,684</u>

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021 and 2020

Changes in Net Position. For the year ended December 31, 2021, current year operations increased the Commission's net position by \$49,876 or 1%. The following is a condensed comparative summary of the Commission's changes in net position for the years ended December 31:

<u>Changes in Net Position</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Program Revenues			
Operating revenue	<u>\$ 1,710,709</u>	<u>\$ 1,784,846</u>	<u>\$ 1,741,135</u>
General Revenues			
Unrestricted investment earnings	190	5,505	34,862
Miscellaneous	<u>25,977</u>	<u>4,782</u>	<u>(23,672)</u>
Total General Revenues	<u>26,167</u>	<u>10,287</u>	<u>11,190</u>
Total Revenues	<u>1,736,876</u>	<u>1,795,133</u>	<u>1,752,325</u>
Expenses			
Operations	1,177,922	1,153,702	1,698,716
Noncapitalized equipment	162,721	144,787	100,316
Depreciation	<u>346,357</u>	<u>309,520</u>	<u>300,108</u>
Total Expenses	<u>1,687,000</u>	<u>1,608,009</u>	<u>2,099,140</u>
Changes in Net Position	49,876	187,124	(346,815)
Net Position, Beginning	<u>3,838,808</u>	<u>3,651,684</u>	<u>3,998,499</u>
Net Position, Ending	<u><u>\$ 3,888,684</u></u>	<u><u>\$ 3,838,808</u></u>	<u><u>\$ 3,651,684</u></u>

Revenue

The major source of operating revenue for SWCTC include franchise fees paid on gross revenue, earned within the boundaries of the five members of SWCTC, and PEG fees paid by cable subscribers monthly, as established in the franchise agreements.

Expenses

As in previous years, wages, benefits, occupancy, franchise fee reimbursements and depreciation make up the largest portion of operating expenses. Unlike the other expenses listed, depreciation is not a cash expense. As a result of continued increases of net position, the Commission was able to return \$311,058 and \$281,589 to its member cities for 2021 and 2020, respectively.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021 and 2020

Capital Assets

SWCTC's capital assets as of December 31, 2021 and 2020 amounted to \$2,492,124 and \$2,409,293, respectively (net of accumulated depreciation). During 2021 and 2020, SWCTC acquired approximately \$429,200 and \$426,650, respectively of new equipment and leasehold improvements.

Budgetary Analysis

During 2021, revenue was approximately \$130,000 higher than expected revenue due to higher than expected franchise fees, and expenses were approximately \$20,000 over budget due to franchise fee reimbursements to the member cities.

During 2020, revenue was approximately \$239,000 higher than expected revenue due to higher than expected franchise fees, and expenses were approximately \$187,000 over budget due to franchise fee reimbursements to the member cities.

Requests for Information

This financial report is intended to provide an overview of the finances of SWCTC for those with an interest in this organization. Questions concerning any information within this report may be directed to the Administrator of SWCTC.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION**STATEMENTS OF NET POSITION**

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 1,689,790	\$ 1,660,202
Accounts receivable	443,743	529,380
Prepaid expenses	12,973	12,975
	<u>2,146,506</u>	<u>2,202,557</u>
TOTAL CURRENT ASSETS		
	<u>2,146,506</u>	<u>2,202,557</u>
CAPITAL ASSETS, at cost		
Equipment	5,271,089	4,841,901
Leasehold improvements	182,531	182,531
Less: accumulated depreciation	<u>(2,961,496)</u>	<u>(2,615,139)</u>
	<u>2,492,124</u>	<u>2,409,293</u>
TOTAL CAPITAL ASSETS, net		
	<u>2,492,124</u>	<u>2,409,293</u>
TOTAL ASSETS	<u>4,638,630</u>	<u>4,611,850</u>
DEFERRED OUTFLOWS		
Deferred outflows related to pensions	<u>219,693</u>	<u>67,236</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	411,547	420,032
Deposits	<u>13,221</u>	<u>13,221</u>
	<u>424,768</u>	<u>433,253</u>
TOTAL CURRENT LIABILITIES		
	<u>424,768</u>	<u>433,253</u>
NONCURRENT LIABILITIES		
Net pension liability	<u>281,851</u>	<u>383,709</u>
	<u>706,619</u>	<u>816,962</u>
TOTAL LIABILITIES		
	<u>706,619</u>	<u>816,962</u>
DEFERRED INFLOWS		
Deferred inflows related to pensions	<u>263,020</u>	<u>23,316</u>
NET POSITION		
Net investment in capital assets	2,492,124	2,409,293
Unrestricted	<u>1,396,560</u>	<u>1,429,515</u>
	<u>\$ 3,888,684</u>	<u>\$ 3,838,808</u>
TOTAL NET POSITION		
	<u>\$ 3,888,684</u>	<u>\$ 3,838,808</u>

See accompanying notes
to basic financial statements

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUE		
Cable operating franchise fees	\$ 1,454,850	\$ 1,516,150
PEG fees	255,859	268,696
TOTAL OPERATING REVENUE	1,710,709	1,784,846
OPERATING EXPENSES		
Salaries and wages	474,980	502,433
Payroll taxes and benefits	120,717	110,327
Promotional	1,511	2,903
Auto mileage	1,529	5,746
Insurance	3,006	9,080
Professional fees	73,862	62,385
Video production supplies	162,721	144,787
Telephone	16,748	15,833
Security	3,508	1,170
Postage	2,322	1,474
Occupancy	108,561	107,441
Supplies	20,085	15,018
Music	1,200	1,200
Copies and printing	288	1,728
Repairs and maintenance	17,898	7,367
Contributions	1,000	-
Dues and conferences	9,350	13,797
Staff development	4,208	7,174
Other	6,091	7,037
Member city franchise fee reimbursements	311,058	281,589
Depreciation	346,357	309,520
TOTAL OPERATING EXPENSES	1,687,000	1,608,009
OPERATING INCOME	23,709	176,837
NON-OPERATING REVENUE		
Interest income	190	5,505
Other income	3,936	1,032
Outside services income	22,041	3,750
TOTAL NON-OPERATING REVENUE	26,167	10,287
CHANGES IN NET POSITION	49,876	187,124
NET POSITION, BEGINNING	3,838,808	3,651,684
NET POSITION, ENDING	\$ 3,888,684	\$ 3,838,808

See accompanying notes
to basic financial statements

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATIONS		
Receipts from operations	\$ 1,796,346	\$ 1,683,471
Payments to suppliers and vendors	(719,780)	(603,753)
Payments to employees	(643,263)	(607,025)
Other non-operating receipts	<u>25,283</u>	<u>3,750</u>
 NET CASH PROVIDED BY OPERATIONS	 458,586	 476,443
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(429,188)	(426,641)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>190</u>	<u>5,505</u>
 NET CHANGE IN CASH AND INVESTMENTS	 29,588	 55,307
 CASH AND INVESTMENTS, BEGINNING	 <u>1,660,202</u>	 <u>1,604,895</u>
 CASH AND INVESTMENTS, ENDING	 <u><u>\$ 1,689,790</u></u>	 <u><u>\$ 1,660,202</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 23,709	\$ 176,837
Adjustments:		
Depreciation	346,357	309,520
Pension expense	3,844	3,364
Other non-operating receipts	25,283	3,750
Net change in assets, liabilities, and deferred outflows of resources:		
Accounts receivable	85,637	(101,375)
Prepaid expenses	2	(1,301)
Accounts payable and accrued expenses	(8,485)	102,948
Deferred outflows - contributions after the measurement date	<u>(17,761)</u>	<u>(17,300)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 458,586</u></u>	 <u><u>\$ 476,443</u></u>

See accompanying notes to
basic financial statements

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The general purpose of South Washington County Telecommunications Commission (the Commission) is to award, administer and enforce a cable communications franchise in member municipalities located within South Washington County of Minnesota.

The Commission, being established by the joint powers agreement, is considered a governmental entity and as such is exempt from state and federal income taxes.

Measurement Focus, Basis of Accounting and Basis of Presentation:

The Commission has adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which establish the financial reporting standards for all state and local government entities.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Commission, the reporting entity. The Commission accounts for its operations as an enterprise fund. Operating revenue and expenses result from administering and enforcing the cable communications franchise. All other revenue and expenses are reported as non-operating revenue and expenses.

Cash and Investments:

For the purpose of statements of cash flows, the Commission considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Investments are reported at fair market value and consist of the Minnesota Money Market Fund (4M). The 4M fund is a 2a7 external investment pool that is unrated and is exempt from risk disclosure reporting requirements under GASB 40.

The Commission has reported all investment income as non-operating revenue in the statement of revenues, expenses, and changes in net position.

Accounts Receivable:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. At December 31, 2021 and 2020, management considered all outstanding amounts to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue:

Commission revenue consists primarily of franchise fees and governmental access fees (PEG fees). Franchise fees are assessed to the cable operators during the year and are recognized as revenue in the current year. PEG fees are based on a negotiated contract with the cable operator and are recognized as revenue in the year concurrent with the contract.

Capital Assets:

Capital assets greater than \$500 are capitalized at cost and depreciated on a straight-line basis over estimated useful lives of three to forty years.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Compensated Absences:

Vested or accumulated vacation and sick leave is accrued for all eligible employees based on their past service and amounted to approximately \$74,300 and \$107,900 as of December 31, 2021 and 2020, respectively.

Accounting 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 and disclosures in these financial statements. Actual results could differ from those estimates.

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 except that PERA's fiscal year end is June 30. 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.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources:

In addition to assets, the statements 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. The Commission has only one item that qualifies for reporting in this category. Accordingly, the one item, deferred outflows related to pensions, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Deferred Inflows of Resources:

In addition to liabilities, the statements 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 it will not be recognized as an inflow of resources (revenue) until that time. The Commission has only one item that qualifies for reporting in this category. Accordingly, the one item, deferred inflows related to pensions, is reported only in the statements of net position and results from actuarial calculations.

Net Position:

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets- This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of assets.

Restricted Net Position- This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, constitutional provisions. At December 31, 2021 and 2020, there was no restricted net position.

Unrestricted- This amount includes all other net position.

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

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits:

In accordance with applicable Minnesota statutes, the Commission maintains deposits at authorized depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all deposits be protected by insurance, surety bonds, or collateral. If collateral is pledged as protection for the deposits, the market value of the collateral must be at a minimum 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgages, and certain other state or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the commission or in a financial institution other than that furnishing the collateral.

At December 31, 2021 and 2020, the carrying amount of the Commission's deposits was \$40,738 and \$151,518, respectively. The entire bank balance was covered by federal depository insurance or collateral held by the Commission's agent in the Commission's name.

Investments:

The Commission's investments at December 31, 2021 and 2020 included the following:

<u>Description</u>	<u>2021</u>	<u>2020</u>
External investment pool - 4M Fund	<u>\$ 1,649,052</u>	<u>\$ 1,508,684</u>

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Description	Balance December 31, 2020	Additions	Disposals	Balance December 31, 2021
Equipment	\$ 4,841,901	\$ 429,188	\$ -	\$ 5,271,089
Leasehold improvements	182,531	-	-	182,531
Less: accumulated depreciation	<u>(2,615,139)</u>	<u>(346,357)</u>	<u>-</u>	<u>(2,961,496)</u>
Total	<u>\$ 2,409,293</u>	<u>\$ 82,831</u>	<u>\$ -</u>	<u>\$ 2,492,124</u>

Description	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020
Equipment	\$ 4,415,260	\$ 426,641	\$ -	\$ 4,841,901
Leasehold improvements	182,531	-	-	182,531
Less: accumulated depreciation	<u>(2,305,619)</u>	<u>(309,520)</u>	<u>-</u>	<u>(2,615,139)</u>
Total	<u>\$ 2,292,172</u>	<u>\$ 117,121</u>	<u>\$ -</u>	<u>\$ 2,409,293</u>

Depreciation expense charged to operations for the years ended December 31, 2021 and 2020 was \$346,357 and \$309,520, respectively.

NOTE 4. DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description:

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

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. **DEFINED BENEFIT PENSION PLANS – STATEWIDE (continued)**

General Employees Retirement Plan

All full-time and certain part-time employees of the Commission 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

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 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 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.

Benefits increases provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For 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.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLANS – STATEWIDE (continued)

Contributions:

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal years 2021 and 2020, and the Commission was required to contribute 7.50% for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the years ended December 31, 2021 and 2020, were \$36,167 and \$34,103, respectively. The Commission's contributions were equal to the required contributions as set by state statute.

Pension Costs:

General Employees Fund Pension Costs

At December 31, 2021 and 2020, the Commission reported a liability of \$281,851 and \$383,709, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund for both years ended 2021 and 2020. 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 Commission totaled \$8,605 and \$11,837 as of December 31, 2021 and 2020, respectively.

The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportionate share of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1 through June 30 each year, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021 and 2020, the Commission's proportion share was 0.0066% and 0.0064%, respectively.

For the years ended December 31, 2021 and 2020, the Commission recognized pension expense of \$23,679 and \$34,074, respectively, for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$694 and \$1,030, respectively, 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 in both 2021 and 2020.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLANS – STATEWIDE (continued)

At December 31, 2021 and 2020, the Commission 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:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,496	\$ 8,596	\$ 3,123	\$ 1,452
Changes in actuarial assumptions	172,092	5,834	-	13,543
Net collective difference between projected and actual investment earnings	-	244,429	9,807	-
Changes in proportion	28,344	4,161	37,006	8,321
Contributions to PERA subsequent to the measurement date	17,761	-	17,300	-
Total	\$ 219,693	\$ 263,020	\$ 67,236	\$ 23,316

The \$17,761 reported as deferred outflows of resources related to pensions resulting from the Commission’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Amount
2022	\$ (3,175)
2023	8,150
2024	512
2025	(66,575)

Total Pension Expense:

The total pension expense recognized by the Commission for the years ended December 31, 2021 and 2020, was \$22,250 and \$20,164, respectively.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLANS – STATEWIDE (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:

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	<u>25.0%</u>	5.90%
Total	<u>100%</u>	

Actuarial Methods and Assumptions:

The total pension liability in the June 30, 2021 and 2020 actuarial valuations 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 6.5 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 6.5 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.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLANS – STATEWIDE (continued)

Actuarial Methods and Assumptions (continued):

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.

The following changes in actuarial assumptions occurred in 2021:

General Employees Fund:

Changes in Actuarial Assumptions:

- 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.

Changes in Plan Provisions:

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

Discount Rate:

The discount rate used to measure the total pension liability in 2021 and 2020 was 6.5% and 7.5%, respectively. 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.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLANS – STATEWIDE (continued)

Pension Liability Sensitivity:

The following presents the Commission’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 Commission’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:

2021	1% Lower Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Higher Discount Rate (7.5%)
Sensitivity of Net Pension Liability at Current Single Discount Rate	\$ 574,829	\$ 281,851	\$ 41,442
2020	1% Lower Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Higher Discount Rate (8.5%)
Sensitivity of Net Pension Liability at Current Single Discount Rate	\$ 614,953	\$ 383,709	\$ 192,952

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 5. BORROWING ARRANGEMENTS

The Commission maintains a credit card account of which they can borrow up to \$42,900 as of December 31, 2021 and 2020. Advances on this credit card accrued interest at a rate of 17.24% and 17.24% for the years ended December 31, 2021 and 2020, respectively. There were outstanding advances on this credit card account of \$2,177 and \$3,288 which were included in the accounts payable balance as of December 31, 2021 and 2020, respectively.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6. BOARD DESIGNATED UNRESTRICTED NET POSITION

The Commission has designated net position for capital equipment replacement. There were \$1,400,000 of funds designated as of December 31, 2021 and 2020.

NOTE 7. FRANCHISE FEE REIMBURSEMENTS

Included within franchise fee reimbursements for the years ended December 31, 2021 and 2020 are the following amounts paid by the Commission to its city members that represent refunded franchise fees:

	2021	2020
City of Woodbury	\$ 207,372	\$ 187,726
City of Cottage Grove	103,686	93,863
	\$ 311,058	\$ 281,589

NOTE 8. COMMITMENTS

During 2010, the Commission entered into a ten-year lease on its operating facility, which expired August 2020. During the year ended December 31, 2020, this lease was extended to August 2024. The facility lease agreement calls for a monthly base rent, plus a pro rata share of the common operating costs. Future lease commitments under this lease as of December 31, 2021 are as follows.

Year Ending December 31,	Amount
2022	\$ 57,017
2023	58,150
2024	39,280
	\$ 154,447

Rent expense charged to operations amounted to \$96,835 and \$96,518, for the years ended December 31, 2021 and 2020, respectively.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 9. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Commission carries insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Cable operating franchise fees	\$ 1,328,796	\$ 1,328,796	\$ 1,454,850	\$ 126,054
PEG fees	255,750	255,750	255,859	109
Interest	-	-	190	190
Other	-	-	3,936	3,936
TOTAL REVENUE	1,584,546	1,584,546	1,714,835	130,289
EXPENSES				
Salaries and wages	527,205	527,205	474,980	52,225
PERA	163,132	163,132	134,634	28,498
Promotional	4,500	4,500	1,511	2,989
Auto mileage	5,150	5,150	1,529	3,621
Insurance	24,394	24,394	3,006	21,388
Professional fees	103,000	103,000	73,862	29,138
Video production supplies	706,000	706,000	567,199	138,801
Telephone	12,000	12,000	16,748	(4,748)
Security	1,500	1,500	3,508	(2,008)
Postage	1,500	1,500	2,322	(822)
Occupancy	116,905	116,905	108,561	8,344
Supplies	5,400	5,400	20,085	(14,685)
Music	1,500	1,500	1,200	300
Photocopy	1,250	1,250	288	962
Repairs and maintenance	28,780	28,780	17,898	10,882
Contributions	500	500	1,000	(500)
Dues and conferences	17,000	17,000	9,350	7,650
Staff development	10,000	10,000	2,743	7,257
Other	7,650	7,650	6,091	1,559
Member city franchise fee reimbursements	-	-	311,058	(311,058)
TOTAL EXPENSES	1,737,366	1,737,366	1,757,573	(20,207)
EXCESS EXPENSES OVER REVENUE	\$ (152,820)	\$ (152,820)	(42,738)	\$ 110,082
Plus effect of capital assets purchased			429,188	
Less effect of depreciation			(346,357)	
Less effect of net pension liability			9,783	
CHANGE IN NET POSITION (GAAP BASIS)			\$ 49,876	

See accompanying notes to
required supplementary information

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2020

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Cable operating franchise fees	\$ 1,295,908	\$ 1,295,908	\$ 1,516,150	\$ 220,242
PEG fees	256,246	256,246	268,696	12,450
Interest	-	-	5,505	5,505
Other	-	-	1,032	1,032
TOTAL REVENUE	1,552,154	1,552,154	1,791,383	239,229
EXPENSES				
Salaries and wages	513,000	513,000	502,433	10,567
PERA	156,967	156,967	124,266	32,701
Promotional	4,500	4,500	2,903	1,597
Auto mileage	5,000	5,000	5,746	(746)
Insurance	16,401	16,401	9,080	7,321
Professional fees	116,000	116,000	62,385	53,615
Video production supplies	525,000	525,000	550,377	(25,377)
Telephone	11,000	11,000	15,833	(4,833)
Security	1,350	1,350	1,170	180
Postage	1,800	1,800	1,474	326
Occupancy	113,500	113,500	107,441	6,059
Supplies	5,400	5,400	15,018	(9,618)
Music	1,500	1,500	1,200	300
Photocopy	1,080	1,080	1,728	(648)
Repairs and maintenance	17,100	17,100	7,367	9,733
Contributions	500	500	-	500
Dues and conferences	25,000	25,000	13,797	11,203
Staff development	8,000	8,000	7,174	826
Other	7,900	7,900	7,037	863
Member city franchise fee reimbursements	-	-	281,589	(281,589)
TOTAL EXPENSES	1,530,998	1,530,998	1,718,018	(187,020)
EXCESS REVENUE OVER EXPENSES	\$ 21,156	\$ 21,156	73,365	\$ 52,209
Plus effect of capital assets purchased			426,641	
Less effect of depreciation			(309,520)	
Less effect of net pension liability			(3,362)	
CHANGE IN NET POSITION (GAAP BASIS)			\$ 187,124	

See accompanying notes to
required supplementary information

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

The Board of Commissioners adopts an annual legal budget for the Commission's enterprise fund. The budget for the fund is prepared on the modified accrual basis and includes capital outlays as expenses. Additionally, the fund does not include depreciation as a budgetary expense. The reconciliation of the modified accrual basis to GAAP basis is found at the bottom of the schedule. Budgetary level of control is exercised at the line item level. Any revisions of the budget must be approved by the Commission. During 2021 and 2020, the Commission did not approve any budget adjustments.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S PERA CONTRIBUTIONS
For the Year Ended December 31, 2021

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
December 31, 2021	\$ 36,167	\$ 36,167	\$ -	\$ 482,220	7.50%
December 31, 2020	\$ 34,103	\$ 34,103	\$ -	\$ 454,707	7.50%
December 31, 2019	\$ 33,249	\$ 33,249	\$ -	\$ 443,320	7.50%
December 31, 2018	\$ 30,731	\$ 30,731	\$ -	\$ 409,747	7.50%
December 31, 2017	\$ 28,837	\$ 28,837	\$ -	\$ 384,493	7.50%
December 31, 2016	\$ 28,260	\$ 28,260	\$ -	\$ 376,800	7.50%
December 31, 2015	\$ 26,881	\$ 26,881	\$ -	\$ 358,413	7.50%

* Schedule is to be provided prospectively beginning with the employer's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF PERA NET PENSION LIABILITY
For the Year Ended December 31, 2021

Measurement Date	Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with SWCTC (a)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with SWCTC (a)		Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)		Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
					Employer's Covered-Employee Payroll (b)	Employer's Covered-Employee Payroll (b)	Percentage of its Covered-Employee Payroll (a/b)		
June 30, 2021	December 31, 2021	0.0066%	\$ 281,851	\$ 8,605	\$ 290,456	\$ 476,067	59.2%	87.0%	
June 30, 2020	December 31, 2020	0.0064%	\$ 383,709	\$ 11,837	\$ 395,546	\$ 459,760	83.5%	79.1%	
June 30, 2019	December 31, 2019	0.0057%	\$ 315,140	\$ 9,833	\$ 324,973	\$ 404,480	77.9%	80.2%	
June 30, 2018	December 31, 2018	0.0060%	\$ 332,855	\$ 10,924	\$ 343,779	\$ 403,440	82.5%	79.5%	
June 30, 2017	December 31, 2017	0.0055%	\$ 351,116	\$ 4,398	\$ 355,514	\$ 386,253	90.9%	75.9%	
June 30, 2016	December 31, 2016	0.0062%	\$ 503,409	\$ 6,490	\$ 509,899	\$ 382,187	131.7%	68.9%	
June 30, 2015	December 31, 2015	0.0062%	\$ 321,316	\$ -	\$ 321,316	\$ 367,186	87.5%	78.2%	

* Schedule is to be provided prospectively beginning with the employer's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

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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 Commissioners
South Washington County Telecommunications Commission
Cottage Grove, 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 basic financial statements of South Washington County Telecommunications Commission (the Commission), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise South Washington County Telecommunications Commission's basic financial statements and have issued our report thereon dated June 22, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies and listed as items 2021-1 and 2021-2.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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 Washington County Telecommunication Commission's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's response to the findings identified in our audit is described in the accompanying schedule of finding and responses. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Hamington Langer Associates

June 22, 2022

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2021

2021-1 Lack of Segregation of Duties

Condition: South Washington County Telecommunications Commission does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: Internal controls should provide a good system of internal accounting controls that contemplate an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

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

Effect: The lack of segregation of duties may not provide an effective system of internal accounting control necessary to prevent and detect errors and irregularities.

Recommendation: Management should provide close supervision and review of accounting policies and procedures and financial information. The Board of Commissioners should monitor the activities of the Commission by receiving interim financial statements and provide oversight to the financial reporting process. Any modifications of internal controls in this area should be reviewed from a cost/benefit perspective.

Management Response: Management will continue to implement segregation of duties to the extent possible. Management and the Board of Commissioners will continue to provide oversight to the financial reporting process. The Commission has established additional procedures of financial review through its return of value calculations and reporting for the member cities.

2021-2 Financial Reporting Process

Condition: Like many similarly sized organizations, South Washington County Telecommunications Commission has requested assistance from us, the auditors, with drafting financial statements and the related notes.

Criteria: Internal controls should provide a good system of internal accounting controls that includes the preparation of the financial statements and footnotes.

Effect: This control deficiency increases the possibility that errors and irregularities in the presentation of the financial statements and footnotes may not be detected on a timely basis.

Recommendation: The outsourcing of these services is not unusual to organizations of this size and is a result of management's cost-benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. Management and the Board of Commissioners should continue to monitor the activities of the Organization by reviewing the financial statements and related notes and providing oversight to the financial reporting process.

Management Response: Management is aware of the situation, but a cost-benefit analysis of the issue does not currently support the allocation of additional employees or resources at this time. Certain other safeguards are currently maintained (management oversight and review of draft financial statements) which provide satisfactory mitigation of the issue. Management and the Board of Commissioners will continue to provide oversight to the financial reporting process.

The Commission's response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applies in our audit of the financial statements and, accordingly, we express no opinion on it. We do, however, recognize the Commission's efforts to strengthen the financial oversight of the organization through its additional procedures and classifications of expenses through its return of value reporting.

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Commissioners
South Washington County Telecommunications Commission
Cottage Grove, 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 South Washington County Telecommunications Commission as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 22, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that South Washington County Telecommunications Commission failed to comply with contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivision*, promulgated by the State Auditor pursuant to Minn. Stat. §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 Commission'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.

Harrington Langer Associates

June 22, 2022