

**SOUTH WASHINGTON COUNTY
TELECOMMUNICATIONS COMMISSION
ANNUAL FINANCIAL REPORTS
December 31, 2022**

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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 statement of net position of South Washington County Telecommunications Commission as of and for the year ended December 31, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year 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, 2022, and the changes in its financial position and its cash flows 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 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 opinion.

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 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 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 25 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 May 17, 2023 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

May 17, 2023

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

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 year ended December 31, 2022.

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 statement of net position, statement of revenues, expenses and changes in net position, and statement 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 statement of net position presents 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 statement 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 year ended December 31, 2022.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Financial Highlights

As of December 31, 2022, SWCTC had a net position balance of \$3,412,632, of which \$2,307,629 represented the net amount invested in capital assets. As of December 31, 2022, \$1,400,000 was designated for capital equipment replacement.

SWCTC's net position decreased \$476,052 during the year. The decrease in net position is attributable to \$571,500 higher than budgeted expenses.

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 \$3,412,632 at the end of the current year, a 12% decrease 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>2022</u>	<u>2021</u>
Assets		
Current and other assets	\$ 2,042,186	\$ 2,146,506
Capital assets, net	<u>2,307,629</u>	<u>2,492,124</u>
 Total Assets	 <u>4,349,815</u>	 <u>4,638,630</u>
 Deferred Outflows	 <u>158,602</u>	 <u>219,693</u>
 Liabilities		
Current and other liabilities	540,589	424,768
Noncurrent liabilities	<u>537,768</u>	<u>281,851</u>
 Total Liabilities	 <u>1,078,357</u>	 <u>706,619</u>
 Deferred Inflows	 <u>17,428</u>	 <u>263,020</u>
 Net Position		
Net investment in capital assets	2,307,629	2,492,124
Unrestricted	<u>1,105,003</u>	<u>1,396,560</u>
 Total Net Position	 <u>\$ 3,412,632</u>	 <u>\$ 3,888,684</u>

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Changes in Net Position. For the year ended December 31, 2022, current year operations decreased the Commission's net position by \$476,052 or 12%. 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>2022</u>	<u>2021</u>
Program Revenues		
Operating revenue	<u>\$ 1,695,007</u>	<u>\$ 1,710,709</u>
General Revenues		
Unrestricted investment earnings	17,379	190
Miscellaneous	<u>33,259</u>	<u>25,977</u>
Total General Revenues	<u>50,638</u>	<u>26,167</u>
Total Revenues	<u>1,745,645</u>	<u>1,736,876</u>
Expenses		
Operations	1,723,412	1,177,922
Noncapitalized equipment	113,836	162,721
Depreciation	<u>384,449</u>	<u>346,357</u>
Total Expenses	<u>2,221,697</u>	<u>1,687,000</u>
Changes in Net Position	(476,052)	49,876
Net Position, Beginning	<u>3,888,684</u>	<u>3,838,808</u>
Net Position, Ending	<u><u>\$ 3,412,632</u></u>	<u><u>\$ 3,888,684</u></u>

Revenue

The major sources 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 \$667,334 to its member cities for 2022.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Capital Assets

SWCTC's capital assets as of December 31, 2022 amounted to \$2,307,629 (net of accumulated depreciation). During 2022, SWCTC acquired approximately \$219,000 of new equipment and leasehold improvements.

Budgetary Analysis

During 2022, revenue was approximately \$50,800 higher than expected revenue due to higher than expected franchise fees, and expenses were approximately \$571,500 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**STATEMENT OF NET POSITION**

December 31, 2022

ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 1,497,865
Accounts receivable	429,353
Prepaid expenses	<u>22,861</u>
TOTAL CURRENT ASSETS	<u>1,950,079</u>
CAPITAL ASSETS, at cost	
Equipment	5,355,877
Leasehold improvements	182,531
Less: accumulated depreciation	<u>(3,230,779)</u>
TOTAL CAPITAL ASSETS, net	<u>2,307,629</u>
OTHER ASSETS	
Right of use asset	<u>92,107</u>
TOTAL ASSETS	<u>4,349,815</u>
DEFERRED OUTFLOWS	
Deferred outflows related to pensions	<u>158,602</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	471,847
Deposits	13,221
Lease liability, current portion	<u>55,521</u>
TOTAL CURRENT LIABILITIES	540,589
NONCURRENT LIABILITIES	
Lease liability, net of current portion	38,806
Net pension liability	<u>498,962</u>
TOTAL NONCURRENT LIABILITIES	<u>537,768</u>
TOTAL LIABILITIES	<u>1,078,357</u>
DEFERRED INFLOWS	
Deferred inflows related to pensions	<u>17,428</u>
NET POSITION	
Net investment in capital assets	2,307,629
Unrestricted	<u>1,105,003</u>
TOTAL NET POSITION	<u>\$ 3,412,632</u>

See accompanying notes
to basic financial statements

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2022

OPERATING REVENUE	
Cable operating franchise fees	\$ 1,457,153
PEG fees	<u>237,854</u>
TOTAL OPERATING REVENUE	<u>1,695,007</u>
 OPERATING EXPENSES	
Salaries and wages	540,506
Payroll taxes and benefits	177,857
Promotional	1,422
Auto mileage	208
Insurance	6,839
Professional fees	82,203
Video production supplies	113,836
Telephone	14,288
Security	569
Postage	941
Occupancy	134,286
Supplies	31,812
Music	500
Copies and printing	97
Repairs and maintenance	34,798
Contributions	-
Dues and conferences	19,183
Staff development	5,803
Other	4,766
Member city franchise fee reimbursements	667,334
Depreciation	<u>384,449</u>
TOTAL OPERATING EXPENSES	<u>2,221,697</u>
OPERATING LOSS	<u>(526,690)</u>
 NON-OPERATING REVENUE	
Interest income	17,379
Other income	2,191
Outside services income	50,141
Loss on disposal of capital assets	<u>(19,073)</u>
TOTAL NON-OPERATING REVENUE	<u>50,638</u>
CHANGES IN NET POSITION	<u>(476,052)</u>
NET POSITION, BEGINNING	<u>3,888,684</u>
NET POSITION, ENDING	<u><u>\$ 3,412,632</u></u>

See accompanying notes
to basic financial statements

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATIONS

Receipts from operations	\$ 1,709,397
Payments to suppliers and vendors	(1,022,385)
Payments to employees	(681,297)
Other non-operating receipts	52,332
Payments on lease liabilities	<u>(48,324)</u>

NET CASH PROVIDED BY OPERATIONS 9,723

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(219,027)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>17,379</u>
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NET CHANGE IN CASH AND INVESTMENTS (191,925)

CASH AND INVESTMENTS, BEGINNING 1,689,790

CASH AND INVESTMENTS, ENDING \$ 1,497,865

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (526,690)
Adjustments:	
Depreciation	384,449
Pension expense	55,455
Other non-operating receipts	52,332
Net change in assets, liabilities, and deferred outflows of resources:	
Accounts receivable	14,390
Prepaid expenses	(9,888)
Accounts payable and accrued expenses	60,300
Deferred outflows - contributions after the measurement date	<u>(20,625)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 9,723

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 statement 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, 2022, 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. The Commission also leases space to an unrelated third party and recognizes the lease income each month.

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 \$51,100 as of December 31, 2022.

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 statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 statement 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 statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so 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 statement 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, 2022, 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 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements:

The GASB issued Statement No. 87, *Leases*, in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

Lease Liabilities:

A lease liability is measured on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable. The implicit rates of the Organization's leases are not readily determinable; accordingly, the Organization has made the election to use a risk-free rate in lieu of its incremental borrowing rate using a period comparable with that of the individual lease term based on the information available at the commencement date for each lease.

ROU Assets:

A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the term of the lease. Finance lease ROU assets are amortized on a straight-line basis over the shorter of the lease term or the remaining useful life of the asset.

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, 2022, the carrying amount of the Commission's deposits was \$98,493. 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, 2022 included \$1,399,372 invested in an external investment pool – 4M Fund.

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, 2021	Additions	Disposals	Balance December 31, 2022
Equipment	\$ 5,271,089	\$ 219,027	\$ (134,239)	\$ 5,355,877
Leasehold improvements	182,531	-	-	182,531
Less: accumulated depreciation	<u>(2,961,496)</u>	<u>(384,449)</u>	<u>115,166</u>	<u>(3,230,779)</u>
Total	<u>\$ 2,492,124</u>	<u>\$ (165,422)</u>	<u>\$ (19,073)</u>	<u>\$ 2,307,629</u>

Depreciation expense charged to operations for the year ended December 31, 2022 was \$384,449.

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.

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.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

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 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 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.

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 year 2022, and the Commission was required to contribute 7.50% for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended December 31, 2022, were \$38,383. The Commission's contributions were equal to the required contributions as set by state statute.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Pension Costs:

General Employees Fund Pension Costs

At December 31, 2022, the Commission reported a liability of \$498,962, 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 2022. 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 \$14,663 as of December 31, 2022.

The net pension liability was measured as of June 30, 2022, 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, 2022, the Commission's proportion share was 0.0063%.

For the year ended December 31, 2022, the Commission recognized pension expense of \$77,274, for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$2,191 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 2022.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

At December 31, 2022, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,168	\$ 5,569
Changes in actuarial assumptions	118,139	2,062
Net collective difference between projected and actual investment earnings	-	188
Changes in proportion	15,671	9,609
Contributions to PERA subsequent to the measurement date	<u>20,624</u>	<u>-</u>
Total	<u>\$ 158,602</u>	<u>\$ 17,428</u>

The \$20,624 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 52,597
2024	44,960
2025	(22,130)
2026	45,123

Total Pension Expense:

The total pension expense recognized by the Commission for the year ended December 31, 2022, was \$73,184.

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, 2022 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 27 years of service.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLANS – STATEWIDE (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 2022:

General Employees Fund:

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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 2022 was 6.5 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.

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:

	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	\$ 788,137	\$ 498,962	\$ 261,794

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 credit card accounts of which they can borrow up to \$54,200 as of December 31, 2022. Advances on these credit cards accrued interest at rates up to 21.49% for the year ended December 31, 2022. There were outstanding advances on this credit card account of \$2,387 which were included in the accounts payable balance as of December 31, 2022.

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, 2022.

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 7. FRANCHISE FEE REIMBURSEMENTS

Included within franchise fee reimbursements for the year ended December 31, 2022 are the following amounts paid by the Commission to its city members that represent refunded franchise fees:

	<u>Amount</u>
City of Woodbury	\$ 444,889
City of Cottage Grove	<u>222,445</u>
	<u>\$ 667,334</u>

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.

For the year ended December 31, 2022, rent expense charged to operations amounted to the following:

	<u>Amount</u>
Lease expense	
Amortization expense of underlying asset	
Office Space	\$ 55,264
Interest on lease liabilities	<u>3,854</u>
Total	<u>\$ 59,118</u>

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS (continued)

The assets acquired through operating leases are as follows:

Description	Balance December 31, 2021	Additions	Subtractions	Balance December 31, 2022
Right of use asset - office	\$ -	\$ 147,371	\$ -	\$ 147,371
Less: accumulated depreciation	-	(55,264)	-	(55,264)
Total	<u>\$ -</u>	<u>\$ 92,107</u>	<u>\$ -</u>	<u>\$ 92,107</u>
Lease liabilities	<u>\$ -</u>	<u>\$ 142,651</u>	<u>\$ (48,324)</u>	<u>\$ 94,327</u>

The Commission, as a lessee, has entered into lease agreements involving office space. The future lease payments under lease agreements are as follows:

Year Ending December 31,	Principal	Interest	Total
2023	\$ 55,521	\$ 2,243	\$ 57,764
2024	38,806	474	39,280
	<u>\$ 94,327</u>	<u>\$ 2,717</u>	<u>\$ 97,044</u>

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, 2022

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Cable operating franchise fees	\$ 1,395,236	\$ 1,395,236	\$ 1,457,153	\$ 61,917
PEG fees	268,537	268,537	237,854	(30,683)
Interest	-	-	17,379	17,379
Other	-	-	2,191	2,191
TOTAL REVENUE	1,663,773	1,663,773	1,714,577	50,804
EXPENSES				
Salaries and wages	544,605	544,605	540,506	4,099
PERA	123,432	123,432	143,056	(19,624)
Promotional	3,500	3,500	1,422	2,078
Auto mileage	1,150	1,150	208	942
Insurance	13,007	13,007	6,839	6,168
Professional fees	82,000	82,000	82,203	(203)
Video production supplies	416,000	416,000	289,383	126,617
Telephone	14,000	14,000	14,288	(288)
Security	1,500	1,500	569	931
Postage	1,100	1,100	941	159
Occupancy	117,175	117,175	134,286	(17,111)
Supplies	14,000	14,000	31,812	(17,812)
Music	1,500	1,500	500	1,000
Photocopy	750	750	97	653
Repairs and maintenance	26,780	26,780	34,798	(8,018)
Contributions	8,500	8,500	-	8,500
Dues and conferences	16,000	16,000	19,183	(3,183)
Staff development	10,000	10,000	2,937	7,063
Other	8,600	8,600	4,766	3,834
Member city franchise fee reimbursements	-	-	667,334	(667,334)
TOTAL EXPENSES	1,403,599	1,403,599	1,975,128	(571,529)
EXCESS EXPENSES OVER REVENUE	\$ 260,174	\$ 260,174	(260,551)	\$ (520,725)
Plus effect of capital assets purchased			219,027	
Less effect of depreciation			(384,449)	
Less effect of loss on disposal of assets			(19,073)	
Less effect of net pension liability			(31,006)	
CHANGE IN NET POSITION (GAAP BASIS)			\$ (476,052)	

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 2022, 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, 2022

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, 2022	\$ 38,383	\$ 38,383	\$ -	\$ 511,773	7.50%
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, 2022

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	Employer's Covered-Employee Payroll (b)	Employer's	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
					Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with SWCTC (a)		Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	
June 30, 2022	December 31, 2022	0.0063%	\$ 498,962	\$ 14,663	\$ 513,625	\$ 473,587	105.4%	76.7%
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, 2022, 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 May 17, 2023.

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 2022-1 and 2022-2.

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

May 17, 2023

SOUTH WASHINGTON COUNTY TELECOMMUNICATIONS COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2022

2022-1 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.

2022-2 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, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 17, 2023.

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 Cities*, 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

May 17, 2023