

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD**  
**ROCHESTER, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2011**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

**Year Ended December 31, 2011**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011

Name		Representing
<b>Board Members</b>		
Dave Erickson - (Dave Hanson - Alternate)	2011 Chair	Dodge County
Tom Kaase - (Chuck Amunrud - Alternate)		Fillmore County
Mike Lee - (Glen Mathiason - Alternate)		Freeborn County
Jim Bryant - (Dan Rechtzigel - Alternate)		Goodhue County
Tom Bjerke - (Larry Connery - Alternate)		Houston County
Raymond Tucker		Mower County
Dave Perkins - (Ken Brown - Alternate)	2011 Vice Chair	Olmsted County
Jake Gillen - (Glen Malecha - Alternate)		Rice County
James Ebeling (Doug Johnson – Alternate)		Steele County
Dave Harms		Wabasha County
Marcia Ward		Winona County
Randy Staver		City of Rochester
<b>Officers</b>		
Mark Darnell	RAC Chair	
Judy Indrelie	Advisor	
Kari Haarstad	Finances	

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Southeast Minnesota Regional Radio Board

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Southeast Minnesota Regional Radio Board as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Southeast Minnesota Regional Radio Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Southeast Minnesota Regional Radio Board as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during the year ended December 31, 2011, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southeast Minnesota Regional Radio Board's basic financial statements as a whole. The Schedule of Expenditures of Federal Awards required by OMB Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2012, on our consideration of the Southeast Minnesota Regional Radio Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)**

The Southeast Minnesota Regional Radio Board's Management's Discussion and Analysis (MD&A) provides an overview of the Board's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

**FINANCIAL REPORTING ENTITY**

The Southeast Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 403.39 and 471.59. The Board entered into a joint powers agreement effective April 16, 2008.

The Southeast Minnesota Regional Radio Board is governed by an eleven county and one city membership. The Board consists of one Commissioner from each county and one City Council member from the city.

The financial activities of the Board are accounted for by Olmsted County as fiscal agent.

The primary activities of the Southeast Minnesota Regional Radio Board are to provide regional administration of enhancements to the Allied Radio Matrix for Emergency Response (ARMER) System owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communication.

**FINANCIAL HIGHLIGHTS**

The Southeast Minnesota Regional Radio Board's governmental activities' total net assets are (\$11,857), which is all unrestricted.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The Board's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities Statement of Net Assets and the Statement of Activities, which provide information about the activities of the Southeast Minnesota Regional Radio Board as a whole and present a longer-term view of the finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

### **Governmental Fund**

Revenues for the Southeast Minnesota Regional Radio Board fund were \$2,028,580, while total expenditures were \$1,609,820. The original budget for 2011 was not amended. Actual revenues were \$6,149,430 lower than anticipated.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 2, the amount received through intergovernmental revenues was \$1,952,199. Actual expenditures were \$6,568,190 lower than budgeted.

**Notes to the financial statements** provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information** is provided as supplementary information regarding the Southeast Minnesota Regional Radio Board's intergovernmental revenues.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Governmental Activities

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 534,860	\$ 960,323
Liabilities		
Other liabilities	\$ 546,717	\$ 954,641
Net Assets		
Unrestricted	<u>\$ (11,857)</u>	<u>\$ 5,682</u>

### Governmental Activities

The Southeast Minnesota Regional Radio Board's activities decreased the net assets from January 1 through December 31, 2011, by \$17,539. Key elements in the decrease in the net assets are as follows:

### Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Revenues		
Intergovernmental revenue	\$ 1,515,900	\$ 1,263,538
Gifts and contributions	64,155	275
Investment earnings	226	72
Miscellaneous	12,000	12,000
Total Revenues	<u>\$ 1,592,281</u>	<u>\$ 1,275,885</u>
Program Expenses		
Public safety		
Equipment reimbursement	\$ 1,335,146	\$ 1,231,073
Staff development	22,727	11,969
Compensation - other	9,573	23,373
Insurance	2,236	1,591
Supplies	950	985
Mileage	88	662
Consulting	164,587	245
Printing	260	305
Training - other	62,100	-
Auditing services	12,076	-
Lodging	77	-
Total Public Safety Program Expenses	<u>\$ 1,609,820</u>	<u>\$ 1,270,203</u>
Increase (Decrease) in Net Assets	<u>\$ (17,539)</u>	<u>\$ 5,682</u>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At December 31, 2011, the Southeast Minnesota Regional Radio Board has no capital assets.

### **Long-Term Debt**

At December 31, 2011, the Southeast Minnesota Regional Radio Board had no outstanding debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The need for interoperability in Public Safety has become a valuable tool in communication between agencies during any disaster that may occur. We foresee more funding in the future to improve this communication and work to keep everyone connected. By the end of 2011, the Regional Radio Board approved its balanced 2012 revenue and expenditure budget.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Southeast Minnesota Regional Radio Board's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Judy Indrelie, Grant Administrator, 101 - 4th Street S.E., Rochester, Minnesota 55904.

## **BASIC FINANCIAL STATEMENTS**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
AS OF DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 14,141	\$ -	\$ 14,141
Due from other governments	520,719	-	520,719
<b>Total Assets</b>	<b>\$ 534,860</b>	<b>\$ -</b>	<b>\$ 534,860</b>
<b><u>Liabilities and Fund Balance/Net Assets</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 40,231	\$ -	\$ 40,231
Due to other governments	505,486	-	505,486
Deferred revenue - unavailable	520,515	(520,515)	-
Deferred revenue - unearned	1,000	(1,000)	-
Unearned revenue	-	1,000	1,000
<b>Total Liabilities</b>	<b>\$ 1,067,232</b>	<b>\$ (520,515)</b>	<b>\$ 546,717</b>
<b>Fund Balance</b>			
Unassigned	\$ (532,372)	\$ 532,372	-
<b>Net Assets</b>			
Unrestricted		(11,857)	\$ (11,857)
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 534,860</b>	<b>\$ -</b>	<b>\$ 534,860</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund balances - Governmental Fund</b>			<b>\$ (532,372)</b>
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund balance sheet.			520,515
<b>Net Assets - Governmental Activities</b>			<b>\$ (11,857)</b>

**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
<b>Intergovernmental</b>			
State			
Department of Public Safety	\$ 116,519	\$ 398,995	\$ 515,514
Federal			
Department of Commerce - National Telecommunications and Information Administration			
Public Safety Interoperable Communications Grant Program	812,969	(357,178)	455,791
Department of Homeland Security			
Interoperable Emergency Communications	73,672	(24,810)	48,862
Homeland Security Grant Program	949,039	(453,306)	495,733
	<b>\$ 1,952,199</b>	<b>\$ (436,299)</b>	<b>\$ 1,515,900</b>
Gifts and contributions	64,155	-	64,155
Miscellaneous - public safety	12,226	-	12,226
	<b>\$ 2,028,580</b>	<b>\$ (436,299)</b>	<b>\$ 1,592,281</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Public Safety</b>			
Equipment reimbursement	\$ 1,335,146	\$ -	\$ 1,335,146
Staff development	22,727	-	22,727
Compensation - other	9,573	-	9,573
Insurance	2,236	-	2,236
Supplies	950	-	950
Mileage	88	-	88
Consulting	164,587	-	164,587
Printing	260	-	260
Training	62,100	-	62,100
Auditing services	12,076	-	12,076
Lodging	77	-	77
	<b>\$ 1,609,820</b>	<b>\$ -</b>	<b>\$ 1,609,820</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 418,760</b>	<b>\$ (436,299)</b>	<b>\$ (17,539)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>(951,132)</b>	<b>956,814</b>	<b>5,682</b>
	<b>\$ (532,372)</b>	<b>\$ 520,515</b>	<b>\$ (11,857)</b>

The notes to the financial statements are an integral part of this statement.

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

***EXHIBIT 2  
(Continued)***

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Reconciliation of the Statement of Governmental Fund Revenues, Expenditures,  
and Changes in Fund Balance to the Statement of Activities**

**Net Change in Fund Balance** **\$ 418,760**

In the General fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the General Fund statement and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 520,515	
Deferred revenue - January 1	(956,814)	(436,299)
<b>Change in Net Assets of Governmental Activities</b>		<b>\$ (17,539)</b>

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2011**

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1. Summary of Significant Accounting Policies

The Southeast Minnesota Regional Radio Board's (Board) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the period January 1 through December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements.

These and other changes are reflected in the accompanying financial statements (including the notes to financial statements).

A. Financial Reporting Entity

The Board was established April 16, 2008, as provided by Minn. Stat. §§ 403.39 and 471.59. The Board was established to provide regional administration of enhancements to the Allied Radio Matrix for Emergency Response (ARMER) System owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communication. The Board is composed of one County Commissioner from each of the participating counties and one City Council member from the participating city. The Board has contracted with Olmsted County to act as its fiscal agent and is organized with a Chair and Vice Chair.

B. Basic Financial Statements

The financial statements combine fund level financial statements and government-wide financial statements (the governmental activities column). These statements include the financial activities of the overall Board.

The governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Board's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The Board first utilizes restricted resources to finance qualifying activities.

**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Board considers all revenues to be available if collected within 45 days after the end of the current period. Grants and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences and claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first and then unrestricted resources as they are needed.

D. Budgets

On or before June 1 of each year, the Board shall, by approval of a majority of all members of the Board, adopt a proposed budget for the ensuing year. The budget shall include the total amount necessary for administrative expenses, operational expenses, and capital expenses.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash

Cash and pooled investments are amounts the Board has on deposit with Olmsted County.

2. Deferred Revenue

The General Fund and the governmental activities of the financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Classification of Fund Balances

Beginning in 2011, the Southeast Minnesota Regional Radio Board implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund balance is divided into five class classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not is spendable from" criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the Board intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Minimum Fund Balance

The Southeast Minnesota Regional Radio Board has adopted a minimum fund balance policy to address cash flow or working capital needs for the General Fund. The Board has determined this amount to not fall below a minimum of 45 percent, or exceed a maximum of 55 percent, of subsequent years' operational budgeted expenditures.

5. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Fund Balance Deficit

At December 31, 2011, the General Fund had a deficit fund balance of \$532,372.

3. Summary of Significant Contingencies and Other Items

A. Deposits and Investments

The Southeast Minnesota Regional Radio Board's total cash and pooled investments of \$14,141 are on deposit with Olmsted County and are included in Olmsted County's pooled cash and investments.

**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items (Continued)

B. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters for which the Board carries commercial insurance. The Board has entered into a joint powers agreement with other Minnesota governmental entities to form the Minnesota Counties Intergovernmental Trust (MCIT) to protect against liabilities for workers' compensation and property and casualty. For other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past fiscal year.

The Property and Casualty Division of the MCIT is self-sustaining, and the Board pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 8,097,296	\$ 8,097,296	\$ 1,952,199	\$ (6,145,097)
Gifts and contributions	64,155	64,155	64,155	-
Miscellaneous	16,559	16,559	12,226	(4,333)
<b>Total Revenues</b>	<b>\$ 8,178,010</b>	<b>\$ 8,178,010</b>	<b>\$ 2,028,580</b>	<b>\$ (6,149,430)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Equipment reimbursement	\$ 7,581,052	\$ 7,581,052	\$ 1,335,146	\$ 6,245,906
Staff development	66,402	66,402	22,727	43,675
Compensation - other	37,711	37,711	9,573	28,138
Insurance	2,236	2,236	2,236	-
Supplies	5,195	5,195	950	4,245
Mileage	3,000	3,000	88	2,912
Consulting	332,000	332,000	164,587	167,413
Printing	260	260	260	-
Training	138,156	138,156	62,100	76,056
Auditing services	11,998	11,998	12,076	(78)
Lodging	-	-	77	(77)
<b>Total Expenditures</b>	<b>\$ 8,178,010</b>	<b>\$ 8,178,010</b>	<b>\$ 1,609,820</b>	<b>\$ 6,568,190</b>
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 418,760</b>	<b>\$ 418,760</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>-</b>	<b>(951,132)</b>	<b>(951,132)</b>
<b>Fund Balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (532,372)</b>	<b>\$ (532,372)</b>

**Note to Budgetary Comparison Schedule**

On or before June 1 of each year, the Board, by approval of a majority of members, adopts a proposed budget for the ensuing year. The budget includes the total amount necessary for administrative expenses, operational expenses, and capital expenses.

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**SUPPLEMENTARY INFORMATION**

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

*EXHIBIT B-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	<b>\$ 455,791</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Interoperable Emergency Communications	97.055	\$ 48,862
Homeland Security Grant Program	97.067	495,733
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 544,595</b>
<b>Total Federal Awards</b>		<b>\$ 1,000,386</b>

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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Southeast Minnesota Regional Radio Board. The Board's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Southeast Minnesota Regional Radio Board under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Board.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. The Southeast Minnesota Regional Radio Board has no clusters for 2011.

**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

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5. Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance

Federal grant revenue per Statement of Revenues, Expenditures, and Changes in Fund Balance	\$	1,835,680
Grants deferred in 2010, recognized as revenue in 2011		
Public Safety Interoperable Communications Grant Program (CFDA #11.555)		(360,025)
Homeland Security Grant Program (CFDA #97.067)		(571,814)
Interoperable Emergency Communications (CFDA #97.055)		(24,975)
Grants received more than 45 days after year-end, deferred in 2011		
Public Safety Interoperable Communications Grant Program (CFDA #11.555)		2,847
Homeland Security Grant Program (CFDA #97.067)		118,508
Interoperable Emergency Communications (CFDA #97.055)		165
		165
Expenditures Per Schedule of Expenditures of Federal Awards	\$	1,000,386

6. Subrecipients

Of the expenditures presented in the schedule, the Board provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
11.555	Public Safety Interoperable Communications Grant Program	\$ 397,273
97.055	Interoperable Emergency Communications	27,947
97.067	Homeland Security Grant Program	477,836
	Total	\$ 903,056



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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD  
ROCHESTER, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Public Safety Interoperable Communications Grant Program	CFDA #11.555
Homeland Security Grant Program	CFDA #97.067

The threshold for distinguishing between Types A and B programs was \$300,000.

Southeast Minnesota Regional Radio Board qualified as low-risk auditee? **No**

## II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### INTERNAL CONTROL

#### ITEM ARISING THIS YEAR

##### 11-1 Audit Adjustments and/or Restatements

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, in a timely basis.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the Radio Board's financial statements. The Radio Board provides a trial balance on the modified accrual basis.

**Context:** The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to record an additional receivable and deferred revenue of \$361,505 and additional payables of \$391,359. Also, deferred revenues of \$159,010 were not recorded.

**Cause:** There was a lack of communication internally causing items to be missed.

**Recommendation:** We recommend that Radio Board staff review internal control procedures over trial balance and financial statement preparation to ensure the Radio Board's financial statements are reported in accordance with generally accepted accounting principles.

#### Client's Response:

*We believe the major issue regarding this finding is a lack of communication internally. This is only the 2nd audit that the Regional Radio Board has had. For 2010, adjusting entries were performed by our fiscal agent, Olmsted County. It was assumed that they would again review and create entries for 2011 but this did not happen and no review process was in place to verify if it happened or not. A clear direction for the 2012 financial work will need to be prepared so that all facets of the required work are completed. We will be working on this process within the next month to determine the duties required and will assign those tasks appropriately to the correct person for future audit preparation.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## **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***

Board of Commissioners  
Southeast Minnesota Regional Radio Board

We have audited the financial statements of the governmental activities and the General Fund of the Southeast Minnesota Regional Radio Board as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 27, 2012. 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.

### Internal Control Over Financial Reporting

Management of the Southeast Minnesota Regional Radio Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Southeast Minnesota Regional Radio Board's internal control over financial reporting as a basis for designing our auditing procedures 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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southeast Minnesota Regional Radio Board'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*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in deposits and investments and claims and disbursements, because these items were tested as part of the Olmsted County audit; contracting and bidding was not tested because there were no contracts entered in by the Board; and public indebtedness, because the Board has no debt.

The results of our tests indicate that for the items tested, the Southeast Minnesota Regional Radio Board complied with the material terms and conditions of applicable legal provisions.

The Southeast Minnesota Regional Radio Board's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the Southeast Minnesota Regional Radio Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 27, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Southeast Minnesota Regional Radio Board

#### Compliance

We have audited the Southeast Minnesota Regional Radio Board's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Southeast Minnesota Regional Radio Board's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Southeast Minnesota Regional Radio Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

In our opinion, the Southeast Minnesota Regional Radio Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of the Southeast Minnesota Regional Radio Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management and others within the Southeast Minnesota Regional Radio Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012