

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SOUTHEAST MINNESOTA REGIONAL RADIO BOARD
ROCHESTER, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

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.

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

Year Ended December 31, 2012



**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, 2012

Name		Representing
Board Members		
Dave Erickson - (Dave Hanson - Alternate)		Dodge County
Tom Kaase - (Chuck Amunrud - Alternate)		Fillmore County
Mike Lee - (Glen Mathiason - Alternate)		Freeborn County
Jim Bryant - (Dan Rechtzigel - Alternate)		Goodhue County
Teresa Walter - (Judy Storlie - Alternate)		Houston County
Tim Gabrielson - (Tony Bennett - Alternate)		Mower County
Ken Brown		Olmsted County
Jake Gillen - (Glen Malecha - Alternate)	2012 Chair	Rice County
James Ebeling - (Doug Johnson - Alternate)		Steele County
Dave Harms		Wabasha County
Marcia Ward	2012 Vice Chair	Winona County
Randy Staver		City of Rochester
Officers		
Mark Darnell	Advisor	
Judy Indrelie	Advisor	
Kari Haarstad	Finances	

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Minnesota Regional Radio Board

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the Southeast Minnesota Regional Radio Board's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Regional Radio Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Regional Radio Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Southeast Minnesota Regional Radio Board as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as 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 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 30, 2013, 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, 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 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 the Southeast Minnesota Regional Radio Board's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 30, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 position is \$102,663, of which \$38,077 is unrestricted and \$64,586 is invested in capital assets.

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 Position 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 position are one indicator of whether its financial health is improving or deteriorating.

Governmental Fund

Revenues for the Southeast Minnesota Regional Radio Board fund were \$4,231,586, while total expenditures were \$3,723,852. The original budget for 2012 was not amended. Actual revenues were \$3,316,093 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 \$4,218,879. Actual expenditures were \$3,823,827 lower than budgeted, due to the underutilization of grant dollars available.

Notes to the financial statements

Large grant dollars were available to members of the SEMNRRB at the time of budgeting for 2012. Most of these grants were multi-year grants with the ability to utilize in various years that extend into year 2013. Because these dollars were available for usage in 2012, it was budgeted accordingly. Actual revenues collected and expenditures recorded were lower than anticipated due to underutilization of grant dollars available for 2012. It is anticipated that any multi-year grant not utilized in 2012 and available in 2013 will be used in 2013 and have been budgeted for accordingly.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

	2012	2011
Assets		
Current and other assets	\$ 1,444,958	\$ 534,860
Capital assets	64,586	-
Total Assets	<u>\$ 1,509,544</u>	<u>\$ 534,860</u>
Liabilities		
Other liabilities	<u>\$ 1,406,881</u>	<u>\$ 546,717</u>
Net Position		
Net investment in capital assets	\$ 64,586	\$ -
Unrestricted	38,077	(11,857)
Total Net Position	<u>\$ 102,663</u>	<u>\$ (11,857)</u>

Governmental Activities

The Southeast Minnesota Regional Radio Board's activities increased the net position from January 1 through December 31, 2012, by \$114,520. Key elements in the increase in the net position are as follows:

Changes in Net Position

	2012	2011
Revenues		
Intergovernmental revenue	\$ 3,761,079	\$ 1,515,900
Gifts and contributions	-	64,155
Investment earnings	183	226
Contributed capital	67,884	-
Miscellaneous	12,524	12,000
Total Revenues	<u>\$ 3,841,670</u>	<u>\$ 1,592,281</u>
Program Expenses		
Public safety		
Equipment reimbursement	\$ 3,592,339	\$ 1,335,146
Staff development	1,466	22,727
Compensation - other	2,672	9,573
Insurance	5,078	2,236
Supplies	-	950
Mileage	88	88
Consulting	81,196	164,587
Depreciation	3,298	-
Printing	-	260
Training - other	29,479	62,100
Auditing services	11,380	12,076
Lodging	154	77
Total Public Safety Program Expenses	<u>\$ 3,727,150</u>	<u>\$ 1,609,820</u>

	2012	2011
Increase (Decrease) in Net Position	\$ 114,520	\$ (17,539)
Net Position - January 1	(11,857)	5,682
Net Position - December 31	\$ 102,663	\$ (11,857)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2012, the Southeast Minnesota Regional Radio Board had acquired capital assets through contributions from the State of Minnesota in mobile radio equipment totaling \$67,884 and recognized \$3,298 in depreciation.

Long-Term Debt

At December 31, 2012, the Southeast Minnesota Regional Radio Board had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Statewide interoperability for Public Safety is quickly becoming a reality for Minnesota. Communication between state, county, and local agencies for community events, weather-related and/or manmade disasters is available to Public Safety personnel. The funding for this statewide initiative will be complete at the end of 2013. The State Emergency Communications Networks Division has recently applied for a multi-million dollar federal grant for a new initiative in Broad Band communications; however, no awards have been given out. In December 2012, the Regional Radio Board approved its balanced 2013 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, 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 POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
AS OF DECEMBER 31, 2012**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 997,068	\$ -	\$ 997,068
Due from other governments	447,890	-	447,890
Capital assets			
Depreciable - net	-	64,586	64,586
Total Assets	\$ 1,444,958	\$ 64,586	\$ 1,509,544
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 542	\$ -	\$ 542
Due to other governments	1,406,339	-	1,406,339
Deferred revenue - unavailable	62,715	(62,715)	-
Total Liabilities	\$ 1,469,596	\$ (62,715)	\$ 1,406,881
Fund Balance			
Unassigned	(24,638)	\$ 24,638	\$ -
Net Position			
Net investment in capital assets		\$ 64,586	\$ 64,586
Unrestricted		38,077	38,077
Total Net Position		\$ 102,663	\$ 102,663
Total Liabilities and Fund Balance/Net Position	\$ 1,444,958	\$ 64,586	\$ 1,509,544
 Reconciliation of the Governmental Fund Balance to Net Position			
Fund balances - Governmental Fund			\$ (24,638)
Capital assets are reported on the Statement of Net Position but not on the balance sheet.			64,586
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund balance sheet.			62,715
Net Position - Governmental Activities			\$ 102,663

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

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental			
State			
Department of Public Safety	\$ 3,478,753	\$ (398,995)	\$ 3,079,758
Federal			
Department of Commerce - National Telecommunications and Information Administration			
Public Safety Interoperable Communications Grant Program	164,052	(2,847)	161,205
Department of Homeland Security			
Interoperable Emergency Communications	15,027	(165)	14,862
Homeland Security Grant Program	561,047	(55,793)	505,254
	\$ 4,218,879	\$ (457,800)	\$ 3,761,079
Total intergovernmental	\$ 4,218,879	\$ (457,800)	\$ 3,761,079
Interest on investments	183	-	183
Contributed capital	-	67,884	67,884
Miscellaneous - public safety	12,524	-	12,524
	\$ 4,231,586	\$ (389,916)	\$ 3,841,670
Total Revenues	\$ 4,231,586	\$ (389,916)	\$ 3,841,670
Expenditures/Expenses			
Current			
Public Safety			
Equipment reimbursement	\$ 3,592,339	\$ -	\$ 3,592,339
Staff development	1,466	-	1,466
Compensation - other	2,672	-	2,672
Insurance	5,078	-	5,078
Mileage	88	-	88
Consulting	81,196	-	81,196
Depreciation	-	3,298	3,298
Training	29,479	-	29,479
Auditing services	11,380	-	11,380
Lodging	154	-	154
	\$ 3,723,852	\$ 3,298	\$ 3,727,150
Total Expenditures/Expenses	\$ 3,723,852	\$ 3,298	\$ 3,727,150
Net Change in Fund Balance/Net Position	\$ 507,734	\$ (393,214)	\$ 114,520
Fund Balance/Net Position - January 1	(532,372)	520,515	(11,857)
Fund Balance/Net Position - December 31	\$ (24,638)	\$ 127,301	\$ 102,663

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 CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

Net Change in Fund Balance	\$	507,734
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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	\$	62,715	
Deferred revenue - January 1		<u>(520,515)</u>	(457,800)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal is reported; whereas, in the governmental fund, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the net book value of assets disposed of.

Depreciation expense for the current period	\$	(3,298)	
Contributed capital		<u>67,884</u>	<u>64,586</u>

Change in Net Position of Governmental Activities	\$	<u>114,520</u>
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**SOUTHEAST MINNESOTA REGIONAL RADIO BOARD
ROCHESTER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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 year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The Board first utilizes restricted resources to finance qualifying activities.

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

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 Position or Equity

1. Cash

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

2. Capital Assets

Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased. Donated capital assets are recorded at estimated fair value at the date of donation.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Position or Equity

2. Capital Assets (Continued)

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

Equipment of the Board is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office furnishings	5 - 15
Radio repeater/tower equipment	10 - 20

3. 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.

4. Classification of Fund Balances

Fund balance is divided into five 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 fund. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable from" criterion includes items 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 are imposed by law through constitutional provisions or enabling legislation.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Position or Equity

4. Classification of Fund Balances (Continued)

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 that do not meet the criteria to be classified as restricted or committed.

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

5. 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.

6. 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, 2012, the General Fund had a deficit fund balance of \$24,638.

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

3. Detailed Notes

A. Deposits and Investments

The Southeast Minnesota Regional Radio Board's total cash and pooled investments of \$997,068 are on deposit with Olmsted County and are included in Olmsted County's pooled cash and investments.

B. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Radio repeater/tower equipment	\$ -	\$ 67,884	\$ -	\$ 67,884
Less: accumulated depreciation for furniture and equipment	-	(3,298)	-	(3,298)
Total Capital Assets Depreciated, Net	\$ -	\$ 64,586	\$ -	\$ 64,586

Depreciation expense of \$3,298 was charged to the public safety function.

4. Summary of Significant Contingencies and Other Items

A. 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 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.

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

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

B. 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.

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 7,451,089	\$ 7,451,089	\$ 4,218,879	\$ (3,232,210)
Gifts and contributions	76,749	76,749	-	(76,749)
Interest on investments	-	-	183	183
Miscellaneous	19,841	19,841	12,524	(7,317)
Total Revenues	\$ 7,547,679	\$ 7,547,679	\$ 4,231,586	\$ (3,316,093)
Expenditures				
Current				
Public safety				
Equipment reimbursement	\$ 7,248,735	\$ 7,248,735	\$ 3,592,339	\$ 3,656,396
Staff development	17,000	17,000	1,466	15,534
Compensation - other	14,221	14,221	2,672	11,549
Insurance	4,841	4,841	5,078	(237)
Mileage	-	-	88	(88)
Consulting	140,325	140,325	81,196	59,129
Training	96,056	96,056	29,479	66,577
Auditing services	10,000	10,000	11,380	(1,380)
Lodging	1,501	1,501	154	1,347
Other	15,000	15,000	-	15,000
Total Expenditures	\$ 7,547,679	\$ 7,547,679	\$ 3,723,852	\$ 3,823,827
Change in Fund Balance	\$ -	\$ -	\$ 507,734	\$ 507,734
Fund Balance - January 1	(532,372)	(532,372)	(532,372)	-
Fund Balance - December 31	\$ (532,372)	\$ (532,372)	\$ (24,638)	\$ 507,734

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, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	\$ 161,205
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Interoperable Emergency Communications	97.055	\$ 14,862
Homeland Security Grant Program	97.067	505,254
Total U.S. Department of Homeland Security		\$ 520,116
Total Federal Awards		\$ 681,321

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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, 2012**

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, 2012. 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 position, 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 2012.

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

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	\$	740,126
Grants deferred in 2011, recognized as revenue in 2012		
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)
Grants received more than 45 days after year-end, deferred in 2012		
Homeland Security Grant Program (CFDA #97.067)		62,715
Expenditures Per Schedule of Expenditures of Federal Awards	\$	681,321

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	\$ 161,205
97.055	Interoperable Emergency Communications	15,027
97.067	Homeland Security Grant Program	464,760
	Total	\$ 640,992

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- 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: **Unmodified**

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:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments and/or Restatements (11-1)

During our audit, we identified material adjustments that resulted in significant changes to the Regional Radio Board's financial statements.

Resolution

No material adjustments were identified in 2012.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



REBECCA OTTO
STATE AUDITOR

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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*

Independent Auditor's Report

Board of Commissioners
Southeast Minnesota Regional Radio Board

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Southeast Minnesota Regional Radio Board as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated May 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southeast Minnesota Regional Radio Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all the listed categories, except that we did not test for compliance with the provisions for 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 into by the Board; and public indebtedness, because the Board has no debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Southeast Minnesota Regional Radio Board failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Board's noncompliance with the above referenced provisions.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 30, 2013

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REBECCA OTTO
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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of Commissioners
Southeast Minnesota Regional Radio Board

Report on Compliance for Each Major Federal Program

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 the Board's major federal program for the year ended December 31, 2012. The Southeast Minnesota Regional Radio Board's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Southeast Minnesota Regional Radio Board's major federal program based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Board's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Southeast Minnesota Regional Radio Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Southeast Minnesota Regional Radio Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 Radio 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 30, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR