



Metro Communications

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METRO COMMUNICATIONS AGENCY

Sioux Falls, South Dakota

A Component Unit of the City of Sioux Falls, South Dakota

Financial Report

Year Ended December 31, 2009

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
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INDEPENDENT AUDITOR'S REPORT

To the Metro Management Council
Metro Communications Agency
Sioux Falls, South Dakota

We have audited the accompanying financial statements of the governmental activities and the general fund of Metro Communications Agency, a component unit of the City of Sioux Falls as of and for the year ended December 31, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Metro Communications Agency'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 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 Metro Communications Agency as of December 31, 2009 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010, on our consideration of Metro Communications Agency's internal control over financial reporting and 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* and is important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 27 through 26, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "EideBailly LLP".

March 12, 2010
Sioux Falls, South Dakota

METRO COMMUNICATIONS AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009

As management of Metro Communications Agency (the "Agency"), a component unit of the City of Sioux Falls, South Dakota (the "City"), we are providing the readers of these financial statements this narrative overview and analysis of financial activities of the Agency for the fiscal year ended December 31, 2009.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the fiscal year by \$1,977,124.
- At the end of the current fiscal year, total unrestricted net assets were \$1,987,218.

Overview – This discussion and analysis is intended to serve as an introduction to the Agency's financial statements. The statements consist of 1) government-wide financial statement; 2) fund financial statements and 3) notes to the financial statements.

Government-wide financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The governmental activities of the Agency are considered general government activities. The government-wide financial statements report all activities of the Agency. The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency has a single governmental fund.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency has a single fund, the General Fund.

The Agency adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget. Required supplementary information can be found on pages 25-27 of this report.

The basic governmental fund financial statements can be found beginning on page 12 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the Agency financial statements. The notes to the financial statements begin on page 14 of this report.

The following schedules reflect condensed financial information for the Agency.

Condensed Statement of Net Assets		
	<u>2008</u>	<u>2009</u>
Assets	\$ 2,373,905	\$ 2,198,345
Liabilities	\$ 402,794	\$ 201,221
Net Assets		
Restricted	6,997	9,906
Unrestricted	1,964,114	1,987,218
Total Net Assets	1,971,111	1,997,124
Total Liabilities and Net Assets	\$ 2,373,905	\$ 2,198,345

Total Agency's assets decreased by \$175,560 during the current fiscal year. This decrease is attributable to planned use of reserves, depreciation, and overestimate of budgeted revenue, as detailed below.

Total liabilities decreased by \$201,573 during the current fiscal year. The decrease is attributable to both a smaller period of payroll accruals and having satisfied the capital lease debt during the current fiscal year.

At the end of the current fiscal year unrestricted net assets were \$1,987,218 while total net assets was \$1,977,124. This was an increase of \$23,104 and \$6,013, respectively during the current fiscal year. The remaining portion of net assets represents insurance capitalization and a donation that has been restricted for employee recognition and the 911 Citizens Academy.

Condensed Statement of Activities		
	<u>2008</u>	<u>2009</u>
Revenues	\$ 5,571,971	\$ 1,596,717
Expenses	3,600,860	3,674,949
Revenues over Expenses	1,971,111	(2,078,232)
Net Assets, January 1	-	1,971,111
Net Assets, December 31	\$ 1,971,111	\$ 1,997,124

Total revenues decreased by \$1,871,009 during the current fiscal year. The majority of this was reflective of the recognition of income during 2008 due to contributions for initial cash, net fixed assets, etc. during the Agency's first year as an independent entity. This balance of the decrease is due to an overestimate of budgeted revenues as detailed below.

Total expenses increased by \$74,089 during the current fiscal year. This increase was attributable to increased personnel expenses including group insurance benefits, wages increases due to wage study implementation, and reduction in vacancies.

Activities increased the Agency's net assets by \$26,013 during the current fiscal year. This is attributable to the difference between capital outlay and depreciation as offset by the planned use of reserves.

The Agency's primary source of funding comes from E911 surcharges. South Dakota Codified Law (SDCL) gives county government the authority to assess these surcharges. As of December 31, 2009, there are 34 providers and resellers operating in Minnehaha County in South Dakota that are remitting surcharges to the County. The County, in turn, remits these surcharges monthly to the Agency as the Public Safety Answering Point (PSAP) for the County and the City.

Surcharge revenues for the year were \$2,104,245. This was \$22,755 less than estimated. The decrease is due to a general decrease in the number of landlines and, because of economic changes in 2008, a decrease in the number of wireless customers in Minnehaha County. The Agency looks for a general increase in the number of wireless customers as the economy recovers in the coming years. Surcharge revenue continues to be the primary revenue source of the Agency.

Secondary to surcharges is the City and County support of the Agency. City and County share for the year totaled \$1,498,927. The individual percentage of contribution was City 75% and County 25%.

Service revenue totals for the year was \$79,670. Radio Shop parts and labor totaled \$74,538. Fees from private attorneys and the public defender for audio requests resulted in \$5,132 in Audio Request fees for 2009.

Personnel expenditures totaled \$2,621,046 for the year. This was \$101,861 less than budgeted and resulted from staffing vacancies due to military leave, along with cost-saving measures and the use of temporary employees to reduce overtime costs.

Operating expenditures for the year totaled \$861,775. This was \$28,968 less than budgeted and resulted in great part from decreased expenses for administrative support and decreased expenses for communications equipment maintenance.

Future Highlights – The Agency is in a strong financial position because of support from the City and County, and because E911 surcharges remain a significant source of revenue. However, there are several areas of concern that will need to be followed with close scrutiny.

The Metro Management Council (the “MMC”) continues to express concerns regarding the collections of the 911 surcharge fees. Actual surcharge revenue cannot be identified until and unless the receipt is received. There is no viable method to audit providers and/or resellers of phone services (land line, wireless, and/or VoIP) to effectively identify E911 surcharges due the County until they are actually received.

Collections in 2009 were reflective of the effect the economy can have on the surcharge revenue for multiple phone lines within households and from small businesses, and the fact that these changes cannot be identified until revenues are received.

Progress has been made in the area of VoIP collections in the last year. Because of efforts from 911 service providers across the state, VoIP revenues are now received by the Agency and other PSAPs across the state. It is logical to expect these revenues to increase with the development of technology. However, new providers will need to be identified and collections monitored.

E911 surcharges are not sufficient to support the entire agency’s budget. Continued support from the City and County is necessary to maintain the health of the Agency.

SDCL 34-45-10 directs counties to annually review and establish their surcharge, up to the authorized maximum of \$.75 per line per month. This statute has not been increased since the law was passed in 1989. The County has the authority to assess these fees, and has established the fee at the maximum rate of \$.75 per line per month. While this type of surcharge structure provides for population growth, it does not provide for inflation, requiring proportionately larger increases in City and County support to fund not only their share of increases due to growth but also the entire share of inflationary cost increases. This is a concern of the MMC. The City and County have both discussed the need to review and possibly seek legislative action to either increase the authorized maximum E911 surcharge amount or change it to a % which would automatically take into account inflationary changes.

2009 Audio Request fees were budgeted based on estimated 2008 data. Actual 2009 Audio Request fees were \$2,732 more than the budgeted amount of \$2,400.

Open Records legislation was passed in 2009, providing the opportunity for the general public to request and receive audio recordings. It is unknown what effect this will have on actual revenues for 2010.

The Radio Shop was closed in November of 2009 after it was determined the benefits of providing these services did not outweigh the costs, and private vendors could efficiently and effectively provide the same services. Budgeted revenues were overestimated while budgeted expenditures were underestimated in 2009. Radio Shop parts and labor revenue was \$74,537, which is \$72,463 less than budgeted. Expenditures were \$45,275, which is \$6,275 more than budgeted. Radio Shop personnel costs totaled \$110,560, resulting in a net cost of \$81,298 to operate the shop in 2009.

Component Unit – Metro Communications Agency is a component unit of the City of Sioux Falls. A complete copy of this audit report can be obtained at the administrative office.

Request for Information – This report is designed to provide an overview of the Agency's finances for those with an interest in this area. Questions concerning any of the information presented in this report or requests for additional financial information should be directed to the Business Manager, Metro Communications Agency, Public Safety Building, 500 North Minnesota Avenue, Sioux Falls, South Dakota 57104

**METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Assets

Cash and Cash Equivalents	\$ 924,515
Receivables, net	4,465
Restricted Assets	9,906
Capital Assets	
Land	5,000
Machinery and Equipment, net	<u>1,254,459</u>
Total Assets	<u>2,198,345</u>

Liabilities

Accounts Payable and Other Current Liabilities	35,906
Long-term Liabilities:	
Due Within One Year	152,500
Due In More Than One Year	<u>12,815</u>
Total Liabilities	<u>201,221</u>

Net Assets

Restricted for:	
Insurance Pool Capitalization	9,276
Other Purposes	630
Unrestricted	<u>1,987,218</u>
Total Net Assets	<u>\$ 1,997,124</u>

The accompanying notes are an integral part of these financial statements.

**METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009**

Function	Expenses	Program Revenue			Net Expense (Revenue) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Primary Government
Primary Government					
Governmental Activities					
General Government	\$ 3,669,159	\$ 86,253	\$ 1,498,927	\$ 5,000	\$ (2,078,979)
Interest on long-Term Debt	5,790	-	-	-	(5,790)
Total Government Activities	<u>3,674,949</u>	<u>86,253</u>	<u>1,498,927</u>	<u>5,000</u>	<u>(2,084,769)</u>
Total Government	<u>\$ 3,674,949</u>	<u>\$ 86,253</u>	<u>\$ 1,498,927</u>	<u>\$ 5,000</u>	<u>(2,084,769)</u>
General Revenues:					
Taxes:					
E-911 Surcharges					
Unrestricted Investment Earnings					
Miscellaneous Revenue, Net					
Change in Net Assets					
Net Assets - Beginning					
Net Assets - Ending					
<u>\$ 1,997,124</u>					

The accompanying notes are an integral part of these financial statements.

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
BALANCE SHEET
DECEMBER 31, 2009

Assets	
Cash & Cash Equivalents (Note 2)	\$ 925,145
Accounts Receivable (Note 2)	4,465
Restricted Assets	9,276
Total Assets	\$ 938,886
 Liabilities and Fund Balance	
Liabilities	
Accounts Payable (Note 2)	\$ 9,315
Accruals (Note 2)	26,591
Total Liabilities	35,906
 Fund Balances	
Reserved - Insurance Capitalization	9,276
Reserved - Other	630
Unreserved	893,074
Total Fund Balance	902,980
Total Liabilities and Fund Balance	\$ 938,886

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Total Fund Balances for Governmental Funds	\$ 902,980
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital Assets	\$ 2,158,396
Accumulated Depreciation	(898,937)
	1,259,459
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Accrued Compensated Absences	(165,315)
Net Assets of Governmental Activities	\$ 1,997,124

The accompanying notes are an integral part of these financial statements.

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
YEAR ENDED DECEMBER 31, 2009

Revenues	
E911 Surcharges	\$ 2,104,245
City/County Share	1,498,927
Services	79,670
Billable Expense Income	1,548
Other Revenue	12,116
Total Revenues	3,696,506
Expenditures	
Operating	3,471,710
Debt Service	
Principal	91,801
Interest	5,790
Capital Outlay	100,216
Total Expenditures	3,669,517
Revenues over Expenditures	26,989
Fund Balance, January 1	875,991
Fund Balance, December 31	\$ 902,980

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net Change in Fund Balances - Total Governmental Funds \$ 26,989

Amounts reported for governmental activities in the Statement of activities are different because:

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. This is the amount by which capital outlay exceeded depreciation in the current period.

Contributions of Fixed Assets, net	\$	5,000	
Expenditures for Capital Assets		100,216	
Gains/Losses on capital Assets		(544)	
Less Current Year Depreciation		(189,490)	(84,818)

Payment of long-term capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal Payments 91,801

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Increase in Compensated Absences (7,959)

Change in Net Assets of Governmental Activities \$ 26,013

The accompanying notes are an integral part of these financial statements.

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

Note 1 – The Organization

The Agency was formed in 1980 under a Joint Cooperative Agreement for Communication Services between the City of Sioux Falls, SD (the “City”) and Minnehaha County, SD (the “County”), as authorized by SDCL 1-24 et.seq. and SDCL 34-48-3. The Agency was created for the single purpose of serving as the consolidated PSAP for all users within the City and County.

Beginning in 2007, steps were taken to establish the agency as a separate legal entity and a component unit of the City. This process was completed effective January 1, 2008.

The Agency operates under the direction and supervision of the MMC to plan, organize, control and manage all communications systems used by the County and City for the provision of emergency services. MMC approves operational policies governing the day-to-day operations of the Agency. MMC consists of five members, the Mayor of the City, two members of the Sioux Falls City Council appointed by the Mayor, and two members of the Minnehaha County Board of Commissioners appointed by the Commission Chair. MMC has broad discretion to oversee and control the operations of the Agency and meets at least bimonthly.

The Agency is headed by a Director of Communications (the “Director”), who is appointed at will by MMC. The Director appoints the Operations Manager and Business Manager upon the advice and with the consent of MMC.

A user’s committee (the “Committee”) exists to provide input and address concerns regarding the operation of the Agency. The Committee consists of the County Sheriff (who chairs the Committee), the City Chief of Police, the City Fire and Rescue Chief, the Brandon, South Dakota Chief of Police, a representative from Rural Metro Ambulance, a representative from the County Ambulance Association, a representative from the County Fire Chief’s Association, a representative from the South Dakota Air National Guard Fire Department, the County Emergency Management Director and the City Emergency Management Coordinator. The Committee meets at least quarterly and the Chairman attends all MMC meetings as the official liaison from the Committee, and has input regarding all actions of MMC. As an ex-officio member of MMC the Chairman does not vote on any matters requiring MMC action.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation – Fund Accounting – The accounts of the Agency are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Agency uses the Governmental Fund Type – General Fund. The General Fund is the only fund used and is the operating fund, accounting for all activity of the Agency.

Reporting Entity – As required by accounting principles generally accepted in the United States of America, these financial statements include all funds that are controlled by, or financially dependent on, the Agency. There are no separate organizations for which the Agency is financially accountable.

Metro Communications Agency is a component unit of the City of Sioux Falls, South Dakota. The mayor serves as chairperson of the MMC. The budget of the Agency must be approved by joint action of the city and county.

Basic Financial Statements (GASB 34) - The basic financial statements are prepared in conformity with GASB Statement No. 34 and presented on both the government-wide and fund financial level. As a single type fund, both the government-wide and fund financial statements categorize all Agency activities as governmental.

The **Government-wide Financial Statements**, consisting of the statement of net assets and the statement of activities, report information on all activities of the Agency.

The statement of activities demonstrates the degree to which the direct expenses of the Agency are offset by program revenues. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods and services of the Agency, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Agency.

Fund Financial Statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Because the Agency uses only one fund, the General fund, there is a single financial statement for all Agency activities. Because the Agency serves a single activity, all funds are reported in a single column in the fund financial statements.

Financial Statements Presentation – The financial transactions of the Agency are recorded in a single fund. The fund is accounted for by providing a single set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The fund is reported by generic classification within the financial statements.

GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Agency has just a single major fund reported in its financial statements.

The government reports the following **major governmental fund**:

The **General Fund** is the government's only operating fund. It accounts for all financial resources of the Agency. Revenue sources include 911 surcharges, support from the City and County, and charges for goods and services. Since the Agency services a single purpose with a single fund, all expenditures are for general government purposes.

Other governmental (non-major) funds is a compilation of all of the non-major governmental funds. These include additional special revenue, capital projects, and permanent funds. There are no other non-major funds.

Measurement Focus and Basis of Accounting – Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This focus concentrates on the fund's net assets. 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 financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus concentrates on the fund's resources available for spending currently or in the near future. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for certain debt service and compensated absences.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

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

Inventory - The consumption method of inventory accounting has been applied in both the government-wide and fund financial statements. Inventories held for consumption are stated at cost.

Cash - The Agency deposits cash with First Premier Bank in Sioux Falls, South Dakota. The funds on deposit with First Premier Bank are available on demand.

Accounts Receivable – This classification consists of Audio Requests, Radio Shop parts & labor, and miscellaneous expense reimbursements. Because E911 surcharges cannot be identified until and unless they are received, they are not accounted for in this classification. Accounts receivables are recorded net of estimated uncollectible amounts and are expected to be collected within one year. As of December 31, 2009, the Agency had an accounts receivable balance of \$4,465. This amount includes \$452 in Audio Requests, \$3,951 in Radio Shop parts & labor, and \$62 in a miscellaneous expense reimbursement.

Accounts Payable and Accruals – Accounts payable represent amounts due to vendors for goods and services provided/incurred by December 31, 2009. As of December 31, 2009 \$9,315 was the amount due to vendors for accounts payable.

Accruals include amounts due to employees for services provided, along with associated payroll taxes and benefits, and also sales tax payable. As of December 31, 2009 \$26,591 was the amount due to vendors and employees for sales tax and payroll related accruals.

Compensated Absences – It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

The accumulation of unused vacation time is limited based on employee classification. Upon separation, the Agency will reimburse the employee for all accumulated but unused vacation.

The amount of unused sick leave accumulation is not limited. After 20 years of employment and upon retirement, or upon separation in good standing for employees eligible for retirement, the Agency will reimburse one-third of the accumulated but unused sick leave up to a maximum of 320 hours. In the event of the death of the employee, all unused and accrued sick leave, up to 960 hours, will be paid the employee's estate.

All compensated absences are accrued when incurred in the government-wide financial statements. Vacation and sick leave accruals are recognized as a long-term liability.

Capital Assets – Capital assets include all land, and buildings, machinery, equipment, and other tangible or intangible assets used in operations which have an initial cost of greater than \$5,000 and initial useful lives extending beyond a single reporting period. Additions or improvements that significantly add value to an asset such as extending the useful life of an asset or increasing its capacity or efficiency are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Agency chose to include all assets transferred from the County upon the creation of the Agency at the value, acquisition date, useful life, and accumulated depreciation as established by the County.

Capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land is not depreciated. All other capital assets are depreciated using the straight line method over the following estimated useful lives:

Small equipment items like computers, radio, phone systems and furniture and fixtures = 10 years

Larger equipment = 10-50 years, depending upon the type of equipment

The following illustrates capital assets and estimated depreciation that are reported for the year ended December 31, 2009:

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Ending Balance</u>
Non-Depreciable Assets				
Land	\$ -	\$ 5,000	\$ -	\$ 5,000
Depreciable Assets				
Equipment	2,043,981	100,216	(13,600)	2,130,597
Vehicles	22,799	-	-	22,799
Totals at Historical Cost	<u>2,066,780</u>	<u>105,216</u>	<u>(13,600)</u>	<u>2,158,396</u>
Accumulated Depreciation				
Equipment	(708,824)	(187,210)	13,056	(882,978)
Vehicles	(13,679)	(2,280)	-	(15,959)
Total Accumulated Depreciation	<u>(722,503)</u>	<u>(189,490)</u>	<u>13,056</u>	<u>(898,937)</u>
Total Governmental Activities Capital Assets, net	<u>\$ 1,344,277</u>	<u>\$ (84,274)</u>	<u>\$ (544)</u>	<u>\$ 1,259,459</u>

Obligations Under Capital Lease – The Agency has acquired equipment (9-1-1 telephone system) under a lease purchase agreement. The lease is treated as a capital lease and the present value of the minimum lease payment is included in governmental debt. The original capitalized value of this equipment was \$428,900. This lease was paid in full during 2009.

Operating Leases – The Agency is party to several operating leases for equipment, land, tower space and office space. The total rental expense for operating leases for the year ended December 31, 2009 was approximately \$59,340. All non-cancelable operating leases expired on December 31, 2009.

Note 3 – Deposits and Investments

All of the Agency's deposits are held by First Premier bank. The custodial credit risk for deposits is the risk that, in the event of the failure of this financial institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The Agency's deposits in excess of depository insurance must be 100 percent collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A. Collateral is required to be segregated by each depository as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve.

As of December 31, 2009, the deposits of the Agency were \$925,145. No depository fell below the 100 percent of pledged collateral required as of December 31, 2009.

Investment Policy - The Agency has an adopted investment policy, conforming to all applicable laws of the State of South Dakota, including SDCL 4-5-6, which serves as the guide to the deposit and investment of operating funds.

State law (SDCL 4-5-6) sets forth eligible deposits and investments for the Agency. Allowable deposits and investments include:

- a. Securities issued by the United States Treasury
- b. Securities issued by government-sponsored enterprises (GSE's) or federally related institutions that are guaranteed directly or indirectly by the U.S. government (U.S. Agencies).
- c. Mutual and money market funds that invest in (a) or (b)
- d. Repurchase agreements fully collateralized by (a) or (b)
- e. Certificates of Deposits (100% collateralized)
- f. Deposit and Savings Accounts (100% collateralized)

Cash and cash equivalents (i.e. demand deposits, and term investments with original maturities of three months or less from the date of acquisition) are considered to be cash on hand, and the Agency shall pool all excess cash for investment.

Note 4 – Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employee; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in local government risk pool insurance programs.

The Agency maintains errors and omissions (general liability) for all of its employees with coverage amounts equal to the highest limits maintained by either the City or County. Both the City and the County are identified as additional named insureds. In addition, the Agency maintains property, casualty, and workers' compensation coverage as determined by the MMC.

The Agency is a member of the South Dakota Public Assurance Alliance (SDPAA), a local government risk pool, for general liability, casualty and property insurance coverage. The Agency pays an annual premium to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Agency pays an annual premium to the pool to provide coverage for:

- a. General Liability
- b. Automobile Liability

- c. Official's Liability
- d. Law Enforcement Liability

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Agency would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of Agency's First Full Year	50%
End of Agency's Second Full Year	60%
End of Agency's Third Full Year	70%
End of Agency's Fourth Full Year	80%
End of Agency's Fifth Full Year	90%
End of Agency's Sixth Full Year and Thereafter	100%

As of December 31, 2009, the Agency had a vested value of \$9,276 in the cumulative reserve fund.

The Agency does not carry additional insurance to cover claims in excess of the upper limit.

Employees are provided health coverage by Wellmark Blue Cross Blue Shield of South Dakota and dental coverage by Delta Dental of South Dakota. These programs are funded by employer and employee contributions. In addition, employees have the opportunity to participate in several supplemental insurance policies, such as vision and cancer insurance, funded solely by employee contributions.

The Agency is a member of the South Dakota Municipal League Workers Compensation Fund to provide benefits to workers injured on the job. This is a Pool Arrangement for public agencies within the State of South Dakota. The Agency pays an annual premium to provide workers' compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits. The Agency's liability coverage under this program is \$2,000,000 combined single limit of liability. Statutory benefits include medical, disability, rehabilitation, and death benefits.

The Agency provides term life insurance in the amount of \$15,000 to eligible employees through Guardian Life Insurance Company, at no cost to the employees. In addition, employees may purchase additional life insurance, funded solely by employee contributions.

Unemployment Benefits – The Agency has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2009 no claims were filed for unemployment benefits.

Note 5 – Pension and Deferred Compensation Plan

Retirement Plan – All full-time employees participate in the South Dakota Retirement System (SDRS). SDRS is a multiple-employer, cost sharing qualified defined benefit pension plan under section 401(a) of the Internal Revenue Code and is administered by the South Dakota Retirement System Board of Trustees. It was established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions.

The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Members and employers make matching pre-tax contributions, which are defined by state statute. Contributions are deposited in trust fund and invested for the exclusive benefit of members and beneficiaries. Interest is deposited once yearly on June 30th.

As a general member, benefits and administrative expenses are funded by member and employer contributions of 6% each of employee compensation and investment income. State statute also requires the employer to contribute in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for General Employees only.

During the years ended December 31, 2009 and December 31, 2008, the cost to the Agency was \$131,810 and \$107,190, respectively.

Supplemental Retirement Plan - IRC Section 457 Plan – All full-time employees are eligible to enroll in the Supplemental Retirement Plan (SRP), a tax deferred savings plan offered by the South Dakota Retirement System (SDRS). All costs of administering the plan are the responsibility of plan participants. No costs were incurred by the Agency.

All public employers who participate in the SDRS may offer the SRP to their employees. This benefit is available to all employees of state and local

government, higher education, and school districts covered under the SDRS. The minimum deferral is \$25.00 per month.

Note 6 – Related Organizations

The City and County jointly provide support for the operation of the Agency. The support provided is a calculation of funds needed for operations after consideration of estimated revenues from other sources. The City's share of support is 75% while the County's share is 25%. In 2009 the total support received was \$1,498,927, of which the City provided \$1,124,196 and the county provided \$374,731.

Several departments within the City and County purchased Radio Shop and Audio Request services from the Agency. In 2009, the City purchased \$39,453 in Radio Shop and Audio Request services from the Agency. County purchases of Radio Shop and Audio Request services for the same period totaled \$9,608.

In 2009, the Agency stopped paying for licensing and/or maintenance services for equipment and software for the Agency and several other entities. Instead these fees are now paid by the county and the Agency reimburses the county for the appropriate share of these expenses. Reimbursement to the county for these types of services in 2009 totaled \$174,919.

In 2009, the Agency paid the County \$221,701 for services provided the Agency (Information Technology services, reimbursement of equipment & software licensing/maintenance services, building rent, postage, and fingerprinting). During the same period the Agency paid the City \$61,789 for services provided the Agency (printing services, vehicle use and gasoline, and REMSA for oversight of emergency medical dispatch protocol).

Note 7 – Commitments and Contingencies

Collective Bargaining Agreements – The following classifications of staff were governed by a collective bargaining agreement between the Agency and AFSCME Local 2561-A (later changed to AFSCME Local 3516): Senior Office Assistant, Electronic Technician, Lead Electronic Technician, Communications Operator, Advanced Communications Operator, and Communications Assistant Supervisor. The current contract covers the period of January 1, 2008 through December 31, 2009. A new 3 year contract was negotiated in 2009 and will take effect January 1, 2010.

Note 8 – Long-term Obligations

A summary of changes in long-term obligations follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 91,801	\$ -	\$ (91,801)	\$ -	\$ -
Accrued Compensated Absences	<u>157,356</u>	<u>168,528</u>	<u>(160,569)</u>	<u>165,315</u>	<u>152,500</u>
Government Type activities, Long-term liabilities	<u>\$ 249,157</u>	<u>\$ 168,528</u>	<u>\$ (252,370)</u>	<u>\$ 165,315</u>	<u>\$ 152,500</u>

Note 9 – Restricted Net Assets

Restricted Net Assets

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Project</u>	<u>Restricted By</u>	<u>Amount</u>
SDPAA Insurance Cumulative Reserve Fund	SDPAA	\$ 9,276
Citizens Academy/Employee Appreciation	Grantor Agency	<u>630</u>
Totals	Totals	<u>\$ 9,906</u>

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
E911 Surcharges	\$ 2,127,000	\$ 2,127,000	\$ 2,104,245	\$ (22,755)
City/County Share	1,498,922	1,498,922	1,498,927	5
Services	156,400	156,400	79,670	(76,730)
Billable Expense Income	-	-	1,548	1,548
Other Revenue	-	-	12,116	12,116
	<u>3,782,322</u>	<u>3,782,322</u>	<u>3,696,506</u>	<u>(85,816)</u>
Expenditures				
Personnel	2,722,907	2,722,907	2,621,046	101,861
Operating	860,743	890,743	861,775	28,968
Debt Service	97,591	97,591	97,591	-
Capital Outlay	156,080	126,080	100,216	25,864
	<u>3,837,321</u>	<u>3,837,321</u>	<u>3,680,628</u>	<u>156,693</u>
Total Expenditures				
Revenues over(under) Expenditures	<u>\$ (54,999)</u>	<u>\$ (54,999)</u>	<u>\$ 15,878</u>	<u>\$ 70,877</u>

Explanation of differences between Budgetary Revenues and Expenditures and GAAP Revenues and Expenditures

Expenditures	
Actual amounts (budgetary basis) from Budgetary Comparison Schedule	\$ 3,680,628
Differences-budget to GAAP:	
The agency budgets for claims and compensated absences on the cash basis rather than on the modified accrual basis	
Increase in vested interest in SDPAA	(3,152)
Increase in Compensated Absences	(7,959)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,669,517</u>

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2009

The Schedule – The Budgetary Comparison Schedule presents comparisons of the original and legally amended budget with actual amounts for the Agency.

The budget is adopted on a basis consistent with generally accepted accounting principles except for bad debt expense, compensated absences, increases in SDPAA, and the reporting of capital outlay and debt service expenditures. The Agency does not budget for bad debt expense within the governmental funds. The Agency budgets for compensated absences only to the extent they are expected to be paid rather than on the modified accrual method. The Agency budgets for debt service and capital outlay functions whereas they are reported separately within the financial statements.

The Agency may apply a portion of the prior years' fund balance, reported as net change in fund balance in the budget column, to the current year's budget as an offset to revenue. The original budget is the budget as originally adopted by the joint meeting of City Council and County Commission. The final budget is the original budget as adjusted by carry-forwards and/or as supplemented by the MMC according to the joint agreement.

Summary of Significant Budget Policies – The joint agreement requires the MMC to submit an annual budget to the City and the County no later than May 15th of each calendar year. The budget must be approved by joint action of the City and County by October 1st of each calendar year.

A single budget is adopted and appropriated for the Agency, using 4 major expenditure categories (Personnel, Operating, Debt Service, and Capital) as the legal level of control.

The total of proposed expenditures shall not exceed the total of estimated income plus the fund balance carried forward, exclusive of reserves. If, during the year, the MMC certifies that there are available for appropriation revenues in excess of those estimated in the budget, the MMC may approve supplemental appropriations for the year up to the amount of the excess. There were neither carry-forwards nor supplemental appropriations in 2009. However, MMC did approve a budget amendment in 2009, moving \$30,000 in expenditures from Capital Outlay to Operating.

Every appropriation lapses at the close of the fiscal year to the extent that it has not been expended or carried forward.

Budget Compliance – There were no violations of the annual appropriated budget for the fiscal year ending December 31, 2009.



CPAs & BUSINESS ADVISORS

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

To the Metro Management Council
Metro Communications Agency
Sioux Falls, South Dakota

We have audited the financial statements of the governmental activities and the general fund of Metro Communications Agency, as of and for the year ended December 31, 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 12, 2010. 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

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about Metro Communications Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Metro Management Council, others within the entity, and officials of the City of Sioux Falls, South Dakota and Minnehaha County, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

March 12, 2010
Sioux Falls, South Dakota