



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, 2010

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2010

	PAGE
INDEPENDENT AUDITOR'S REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4-9
FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements	
Balance Sheet.....	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Notes to Financial Statements	14-24
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	
General Fund	25
Notes to Required Supplementary Information-Budgetary Reporting.....	26-27
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28-29*
SCHEDULE OF FINDINGS AND RESPONSES.....	30



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Metro Management Council
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, 2010, 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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Metro Communications Agency, as of December 31, 2010, 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 17, 2011, on our consideration of the Metro Communications Agency'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
March 17, 2011

METRO COMMUNICATIONS AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010

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, 2010.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the fiscal year by \$2,737,683.
- At the end of the current fiscal year, total unrestricted net assets were \$2,723,656.

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

	Restated <u>2009</u>	<u>2010</u>
Assets	\$ 2,710,875	\$ 2,937,845
Liabilities	\$ 201,221	\$ 201,943
Net Assets		
Restricted	9,906	14,027
Unrestricted	2,499,748	2,721,875
Total Net Assets	2,509,654	2,735,902
Total Liabilities and Net Assets	\$ 2,710,875	\$ 2,937,845

Total Agency's assets increased by \$228,751 during the current fiscal year. This increase is attributable to planned reductions in spending in order to increase reserves and recognition of equipment from the county, all as reduced by depreciation and overestimate of budgeted revenue, as detailed below.

Total liabilities remained stable during the current fiscal year. This is attributable to consistent payroll accruals and planned delays in capital outlays in order to use cash reserves and grant funds rather than lease debts as in the past.

At the end of the current fiscal year unrestricted net assets were \$2,737,656 while total net assets was \$2,737,683. This was an increase of \$223,908 and \$228,029, 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

	Restated <u>2009</u>	<u>2010</u>
Revenues	\$ 3,845,634	\$ 3,783,826
Expenses	3,710,057	3,555,797
Revenues over Expenses	135,577	228,029
Net Assets, January 1	2,374,077	2,509,654
Net Assets, December 31	\$ 2,509,654	\$ 2,737,683

Total revenues decreased by \$61,808 during the current fiscal year. The majority of this was reflective reduction in service income due to closure of Radio Shop in 2009. This balance of the decrease is due to an overestimate of budgeted revenues as detailed below.

Total expenses decreased by \$154,260 during the current fiscal year. This decrease was generally attributable to reduced personnel expenses including group insurance benefits, reflective of reduced staffing due to Radio Shop closure and military leave.

Net assets increased by \$228,029 during the current fiscal year. This is attributable to planned reductions in spending as offset by overestimated revenue.

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, 2010, there are 42 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 \$2,147,066. This was \$43,934 less than estimated. The decrease is due to recognition of this revenue on an accrual basis, along with a continued decrease in the number of landlines and, because of economic changes in 2008 and 2009, 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 \$1,588,863. The individual percentage of contribution was City 75% and County 25%.

Service revenue totals for the year was \$6,424 and represents fees from private attorneys and the public defender for audio requests. This is a reduction of \$73,246, reflective of Radio Shop closure in 2009.

Personnel expenditures totaled \$2,534,243 for the year. This was \$364,471 less than budgeted and resulted from staffing vacancies due to military leave and closure of Radio Shop, along with cost-saving measures and the use of temporary employees to reduce overtime costs.

Operating expenditures for the year totaled \$826,513. This was \$137,517 less than budgeted and resulted in great part from the Radio Shop closure and general reductions in spending in order to build reserve.

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 2010 continued to be 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.

Although VoIP revenues are now received by the Agency and other PSAPs across the state, collections of these revenues remain a concern. It continues to be 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 continues to be a concern of the MMC. Along with the City and County, MMC has plans to express their support of legislative action to increase the authorized maximum E911 surcharge amount in 2011.

MMC entered into an agreement with the City of Brandon, South Dakota in 2010 to begin assessing fees in 2011 for PSAP services provided to the City of Brandon Police Department calculated on their share of CFS. The agreement provides for an initial fee based on budgeted revenues and expenditures, with reconciliation at year end based on actual revenues and expenditures. The budgeted fee to be paid in 2011 will be \$54,000.

2010 Audio Request fees were budgeted based on estimated 2009 data. Actual 2010 Audio Request fees were \$2,324 more than the budgeted amount of \$4,100. This increase is reflective in part to the Open Records legislation which was passed in 2009, providing the opportunity for the general public to request and receive audio recordings.

The Radio Shop was closed in November of 2009 after approval of 2010 budget. Therefore, both budgeted revenues and expenditures were overestimated in 2010.

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, 2010**

Assets

Cash and Cash Equivalents	\$ 1,342,962
Receivables, net	1,781
Due From County	433,968
Restricted Assets	
Cash	2,116
Deposits	11,911
Capital Assets	
Land	5,000
Machinery and Equipment, net	<u>1,141,888</u>
Total Assets	<u>2,939,626</u>

Liabilities

Accounts Payable and Other Current Liabilities	49,399
Long-term Liabilities:	
Due Within One Year	94,166
Due In More Than One Year	<u>58,378</u>
Total Liabilities	<u>201,943</u>

Net Assets

Restricted for:	
Insurance Pool Capitalization	11,911
Other Purposes	2,116
Unrestricted	<u>2,723,656</u>
Total Net Assets	<u><u>\$ 2,737,683</u></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, 2010

Assets

Cash & Cash Equivalents (Note 2)	\$	1,345,078
Accounts Receivable (Note 2)		1,781
Due From County		433,968
Restricted Assets		11,911
Total Assets		\$ 1,792,738

Liabilities and Fund Balance

Liabilities

Accounts Payable (Note 2)	\$	15,989
Accruals (Note 2)		33,410
Total Liabilities		49,399

Fund Balances

Reserved - Insurance Capitalization		11,911
Reserved - Other		2,116
Unreserved		1,729,312
Total Fund Balance		1,743,339
Total Liabilities and Fund Balance		\$ 1,792,738

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

Total Fund Balances for Governmental Funds	\$	1,743,339
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	\$	2,218,222
Accumulated Depreciation		(1,071,334)
		1,146,888
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Compensated Absences		(152,544)
Net Assets of Governmental Activities		\$ 2,737,683

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, 2010

Revenues	
E911 Surcharges	\$ 2,147,066
City/County Share	1,588,863
Services	6,424
Billable Expense Income	1,336
Other Revenue	16,282
Total Revenues	3,759,971
Expenditures	
Operating	3,370,892
Revenues over Expenditures	389,079
Fund Balance, January 1	
Prior Period Adjustment	902,980
	451,280
Fund Balance, January 1, as adjusted	
	1,354,260
Fund Balance, December 31	
	\$ 1,743,339

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	\$	389,079
<p>Amounts reported for governmental activities in the Statement of activities are different because:</p>		
<p>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.</p>		
Contributions of Fixed Assets, net	\$	33,689
Gains/Losses on Capital Assets		(9,835)
Less Current Year Depreciation		(173,821)
<p>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.</p>		
Decrease in Compensated Absences		12,771
Change in Net Assets of Governmental Activities	\$	228,029

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, 2010

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 current joint agreement expired December 31, 2010 and a new agreement was agreed to and adopted by the City and County in December, 2010 with an effective date of January 1, 2011 through December 31, 2012, and includes an automatic renewal year to year, thereafter.

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 serves 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. Accounts receivables are recorded net of estimated uncollectible amounts and are expected to be collected within one year. As of December 31, 2010, the Agency had an accounts receivable balance of \$1,781.

Accounts Payable and Accruals – Accounts payable represent amounts due to vendors for goods and services provided/incurred by December 31, 2010. As of December 31, 2010 \$15,989 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, 2010 \$33,410 was the amount due to vendors and employees for 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 16 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 to 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, 2010:

Governmental Activities	<u>Beginning Balance</u>	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Ending Balance</u>
Non-Depreciable Assets					
Land	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ 5,000
Depreciable Assets					
Equipment	2,130,597	2,194,510	33,689	(14,977)	2,213,222
Vehicles	22,799	22,799	-	(22,799)	-
Totals at Historical Cost	<u>2,158,396</u>	<u>2,222,309</u>	<u>33,689</u>	<u>(37,776)</u>	<u>2,218,222</u>
Accumulated Depreciation					
Equipment	(882,978)	(885,641)	(197,675)	11,982	(1,071,334)
Vehicles	(15,959)	(15,959)	-	15,959	-
Total Accumulated Depreciation	<u>(898,937)</u>	<u>(901,600)</u>	<u>(197,675)</u>	<u>27,941</u>	<u>(1,071,334)</u>
Total Governmental Activities Capital Assets, net	<u>\$ 1,259,459</u>	<u>\$ 1,320,709</u>	<u>\$ (163,986)</u>	<u>\$ (9,835)</u>	<u>\$ 1,146,888</u>

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, 2010 was approximately \$59,490. All Agency operating leases are cancelable.

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, 2010, the deposits of the Agency were \$1,345,078. 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. Official's Liability
- c. 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, 2010, the Agency had a vested value of \$11,911 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, 2010 three claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$9,045. As of December 31, 2010, no claims had been filed or were outstanding. Unemployment compensation is charged as a current expenditure when it is incurred.

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, 2010, 2009 and 2008, the cost to the Agency was \$122,442, \$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 – Other Post Employment Benefit Plan

Metro allows retirees with 15 years continuous service with the agency and participation for at least five years immediately preceding retirement in the health, dental and/or vision plan to continue coverage until they become entitled to Medicare coverage. The retiree is responsible for the total premium cost, plus an administrative fee of 2%. Metro has determined that its liability for this benefit is not material to the financial statements.

Note 7 – 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 2010 the total support received was \$1,588,863, of which the City provided \$1,191,648 and the county provided \$374,731.

Several departments within the City and County purchased Audio Request services from the Agency. In 2010, the City purchased \$60 in Audio Request services from the Agency. County purchases of Audio Request services for the same period totaled \$5,190.

In 2010, the Agency paid the County \$240,375 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 \$61,708 for services provided the Agency (printing services, vehicle use and gasoline, and REMSA for oversight of emergency medical dispatch protocol).

Note 8 – 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): Electronic Technician, Lead Electronic Technician, Communications Operator-Training, Communications Operator, and Shift Supervisor. The current contract covers the period of January 1, 2010 through December 31, 2012.

Note 9 – 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>
Accrued Compensated Absences	<u>\$ 165,315</u>	<u>\$ 150,679</u>	<u>\$ (163,450)</u>	<u>\$ 152,544</u>	<u>\$ 94,166</u>

Note 10 – 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	\$ 11,911
Citizens Academy/Employee Appreciation	Grantor Agency	<u>2,116</u>
Totals	Totals	<u>\$ 14,027</u>

Note 11 – Prior Period Adjustments

Prior period adjustments are reported to recognize equipment, net of depreciation, in the amount of \$61,250 and an amount due from county in the amount of \$451,280, both of which should have been recorded during the prior year.

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2010

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues			
E911 Surcharges	\$ 2,191,000	\$ 2,147,066	\$ (43,934)
City/County Share	1,588,857	1,588,863	6
Services	77,515	6,424	(71,091)
Billable Expense Income	-	1,336	1,336
Other Revenue	<u>5,357</u>	<u>16,282</u>	<u>10,925</u>
Total Revenues	<u>3,862,729</u>	<u>3,759,971</u>	<u>(102,758)</u>
Expenditures			
Personnel	2,898,714	2,534,243	364,471
Operating	963,918	826,513	137,405
Capital Outlay	<u>26,165</u>	<u>-</u>	<u>26,165</u>
Total Expenditures	<u>3,888,797</u>	<u>3,360,756</u>	<u>528,041</u>
Revenues over(under) Expenditures	<u>\$ (26,068)</u>	<u>\$ 399,215</u>	<u>\$ 425,283</u>

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

Expenditures	
Actual amounts (budgetary basis) from Budgetary Comparison Schedule	\$ 3,360,756
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	(2,635)
Decrease in Compensated Absences	<u>12,771</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,370,892</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, 2010

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, supplemental appropriations, nor budget amendments in 2010.

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, 2010.



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*

Metro Management Council
Metro Communications Agency

We have audited the financial statements Metro Communications Agency as of and for the year ended December 31, 2010, which collectively comprise Metro Communications Agency's basic financial statements and have issued our report thereon dated March 17, 2011. 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 Metro Communications Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro Communications Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metro Communications Agency's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be a material weakness referenced as item 2010-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 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*.

We noted certain other matters that we reported to management of Metro Communications Agency in a separate letter dated March 17, 2011.

Metro Communications Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Metro Communications Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the 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.

Eide Sully LLP

Sioux Falls, South Dakota
March 17, 2011

Metro Communications Agency

Schedule of Findings and Responses

December 31, 2010

Finding 2010-1

Prior Period Adjustments

- Condition:** The County gave communications equipment to Metro Communications which was installed and placed in service during 2009. However, finance department of Metro Communications was not advised of the equipment cost and related contribution revenue from the County until 2010. In addition, the County and Metro Communications determined that an amount Due from County should have been recorded as of December 31, 2009 to reflect 911 surcharges billed during the last quarter of that year, but not received until the following year. Prior period adjustments were made in the 2010 financial statements to correct the errors.
- Criteria:** Fixed assets and related grant revenue should be recorded when title passes to Metro Communications and when the equipment is placed in service. A receivable should be recorded for the period in which revenue is earned.
- Effect:** The control deficiency could result in a misstatement of the financial statements that would not be prevented or detected on a timely basis.
- Cause:** There appears to be a deficiency in review or monitoring of fixed asset management and accounting and receivables on a timely basis.
- Recommendation:** We recommend that fixed assets and related grant funds, and receivables be reviewed and monitored to assure costs are appropriately recorded in the correct funds on a timely basis.
- Management response:** The equipment manager will report monthly to the business manager for any equipment received from the County or other sources. Receivables will be monitored to assure they are recorded on a current basis.