METRO COMMUNICATIONS AGENCY

Sioux Falls, South Dakota

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

Financial Report

Year Ended December 31, 2016

First to Serve

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2016

Independent Auditor's Report

To the Metro Management Council
Sioux Falls, South Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and general fund of Metro Communications Agency (the Agency), a component unit of the City of Sioux Falls, South Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion 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 from material misstatement.

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

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

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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 Agency, as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison information, Schedule of Funding Progress, Schedule of Employer's Share of Net Pension Asset and Schedule of Employer's Contributions 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 American, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2017 on our consideration of the 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* in considering the Agency's internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
May 17, 2017

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, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows of resources at the close of the fiscal year by $3,070,557.
- At the end of the current fiscal year, total unrestricted net position was $1,769,409.

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 position presents information on all of the Agency's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them being reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 12-13 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 31-35 of this report.

The basic governmental fund financial statements can be found beginning on page 14 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 16 of this report.

The following schedules reflect condensed financial information for the Agency.

Condensed Statement of Net Position

	2015	2016
Assets	$ 3,763,132	$ 3,133,052
Deferred Outflows of Resources - Pensions	$ 948,438	$ 987,926
Total Assets and Deferred Outflows of Resources	$ 4,711,570	$ 4,120,978
Liabilities		
Current Liabilities	$ 223,235	$ 246,373
Long-Term Liabilities	301,974	792,216
Total Liabilities	525,209	1,038,589
Deferred Inflows of Resources - Pensions	$ 806,129	$ 11,832
Total Liabilities and Deferred Inflows of Resources	$ 1,331,338	$ 1,050,421
Net Position		
Investment in Capital Assets	797,638	749,340
Restricted	703,726	551,808
Unrestricted	1,878,868	1,769,409
Total Net Position	3,380,232	3,070,557
Total Liabilities and Net Position	$ 4,711,570	$ 4,120,978

Total Agency's assets and deferred outflows of resources decreased during the current fiscal year. The 2016 decrease is largely due to a change from a GASB 68 Net Pension Asset to a Net Pension Liability, budgeted use of cash, depreciation in excess of asset acquisitions, and offset by increased Deferred Outflows of Resources for Pensions and year-end prepaid expenses.

Total liabilities and deferred inflows of resources decreased during the current fiscal year. This is attributable in great part to net decreased GASB 68 and employee leave liabilities, offset by increased accrued wages, OPEB, accounts payable, and payroll deductions payable.

At the end of the current fiscal year unrestricted net position and total net position decreased. Investment in capital assets decreased by $48,298 due to asset additions net of depreciation. Restricted assets decreased due to implementation of GASB 68.

Condensed Statement of Activities

	2015	2016
Reveues		
Charges for Services	$ 64,482	$ 72,834
Operating Grants and Contributions	1,252,493	1,271,631
Capital Grants and Contributions	-	89,505
General Revenues	2,400,236	2,517,735
Total Revenues	3,717,211	3,951,705
Expenses - General Government	3,808,766	4,261,380
Revenues Over (Under) Expenses	(91,555)	(309,675)
Net Position, January 1	3,471,787	3,380,232
Net Position, December 31	$ 3,380,232	$ 3,070,557

Total revenues increased by $234,494 during the current fiscal year. The majority of this was reflective of an increase in E911 surcharge revenue and contribution of revenue, along with increases in support from the City of Sioux Falls and Minnehaha County, audio recording fees, Emergency Medical Services (EMS) transfer fees, and interest, and offset by reduced grant funds and recoveries.

Total expenses increased by $452,613 during the current fiscal year. This increase was attributable to in great part to GASB 68, along with increased personnel, offset by reduced operating expenditures.

Net position decreased during the current fiscal year. This is attributable in great part to GASB 68, along with increased E911 surcharge revenue, contribution of revenue, support from the City of Sioux Falls and Minnehaha County, service fees from audio recordings and EMS provider, offset by increased total expenditures.

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. In July, 2012 legislative changes were implemented which increased the surcharge per subscriber from $.75 to $1.25 per line per month through mid-year 2018. At the same time the State began collecting all surcharges for lines within the state of South Dakota. After fees approximately $.86 per line is remitted monthly to each County for subscribers residing in the county while another 26% of the remaining approximately $.375, commonly referred to as incentive funds, is remitted to 11 PSAPs across the state who meet eligibility requirements. Minnehaha County remits the surcharges received monthly from the State of SD to the Agency as the Public Safety Answering Point (PSAP) for the County and the City. MCA is also one of the11 PSAPs across the state which meets the requirements for the incentive funding. The formula for distribution of incentive funds utilizes population and the legislation includes provision for revising the populations used in this calculation based on census updates during years ending in a "5". The census update for 2015 was completed mid-year

2016, increasing the agency's share from 32.15% to 33.33% of this statewide portion, net of fees.

Surcharge revenues for the year totaled $2,502,845. This was $54,831 more than estimated. The increase is reflective of a return to anticipated subscriber numbers and growth, and beyond the lower trends available at time the 2016 budget was adopted. 2016 was the fourth full year of remittances under the new legislation. As is common, some of these revenues are for prior year adjustments. Remittances by category of subscriber shifted slightly from land lines to wireless while VoIP subscribers remained fairly constant.

Secondary to surcharges is the City and County support of the Agency. City and County share for the year totaled $1,256,625. The individual percentage of contribution was City 75% and County 25%.

Service revenue totals for the year was $66,305. This was $1,240 less than estimated. The majority of this is a result of a decrease in the PSAP Service fee assessed to the City of Brandon for providing dispatch services for their police department. This is offset by an increase in fees from EMS provider, along with audio requests from private attorneys, the public defender and public advocate.

Grant funds totaled $2,817. This was $817 more than budgeted. The increase reflects a small EMS grant received in the fall of 2016 for equipment.

Personnel expenditures totaled $3,328,434 for the year. This was $66,364 less than budgeted and resulted in great part from staffing vacancies and decreased overtime, offset with temporary staffing and increased health insurance premiums.

Operating expenditures for the year totaled $576,045. This was $48,479 less than budgeted and is reflective of in great part to decreased dispatch communications connectivity fees, maintenance contracts, and computer hardware costs < $5,000.

Capital outlay for the year totaled $23,006. This was for the purchase of two additional consoles in our main center.

Capital Assets and Debt Administration –The investment in capital assets for the governmental activities as of December 31, 2016, amounted to $749,340 (net of accumulated depreciation) in equipment.

The Agency's investment in capital assets net of accumulated depreciation, decreased by $48,298 in the current fiscal year. This decrease is due to the purchase of depreciable capital assets, contribution receipt of non-depreciable assets (currently construction in progress) offset by 2016 depreciation adjustment.

Additional information on capital assets can be found in Note 2 in the Notes to the Financial Statements.

The Agency had no long-term debt in 2016.

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 have historically been followed with close scrutiny.

With centralized E911 surcharge collection by the South Dakota Department of Revenue, the agency no longer receives individual provider specific data but does receive statistics by type of provider: landline, wireless and VoIP. These statistics are tracked and monitored monthly, and any concerns are presented to the state for resolution. It continues to be logical to expect these revenues to increase with local population growth. It is also logical to expect the development of technology to affect type of subscribers, along with subscriber shift between competing providers. As the city of Sioux Falls grows, accurate surcharge remittance within city limits remains a concern. New provider identification, along with verification of accurate collections and remittance both by provider and subscriber type also remain a concern.

SDCL 34-45-10, originally adopted in 1989, directed counties to annually review and establish their surcharge, up to the authorized maximum of $.75 per line per month. The legislative change, passed in February of 2012 temporarily increased the monthly surcharge to $1.25 per subscriber per month. A portion of the increase is paid directly to local PSAPs as described earlier with the balance of the increase held at the state for infrastructure improvements statewide. This has eased the burden of necessary capital improvements and associated maintenance costs for the agency and other agencies across the state. However, as with the original surcharge legislation, the new legislation does not provide for inflation, realistically 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 in future years. In addition, the 2012 fee increase was set to sunset July 1, 2018 at which time the surcharge fee will be reduced by $.025 to $1.00 per subscriber per month. The legislation provide that at that time the remittance to counties will be reduced to $.85, less fees, per subscriber line per month. The remaining $.15, less fees, will be distributed to the PSAPs across the state who meet the eligibility requirements, described earlier as incentive funds. Early in 2017, State legislation was passed to extend the sunset one year to mid-year 2019. Although this gains an additional year at the current increased rate of $1.25 per subscriber, no other changes were made to address the concerns described above. As described earlier, the formula for distribution of incentive funds utilizes population and the legislation includes provision for revising the populations used in this calculation during census updates in years ending in a “5”. The next update would be 2020 with likely availability of census data along with completion of adjustments early to mid-year 2021. These continue to be a concern of the MMC.

E911 surcharges remain insufficient to support the entire agency’s budget. Continued support from the City and County is necessary to maintain the health of the Agency.

Reconciliation of PSAP service fees with the City of Brandon, South Dakota resulted in a refund of $5,180 over the $43,565 originally budgeted for revenue in 2016.

2016 Audio Request fees were budgeted based on estimated 2015 data. Actual 2016 Audio Request fees were $680 less than the budgeted amount of $13,600. This decrease is reflective of the mid-year fluctuations in audio requests that cannot be predicted.

2016 was the first full year of EMS transfer service fees, following a partial first year of fees in 2015. Total fees for 2016 were $15,000. This is $4,620 more than the budgeted amount of $10,380. This increase is reflective of a 2016 budget estimate before the initial services began in 2015, making it difficult to accurately identify frequency of services. In addition, rates were adjusted effective January 1, 2016 after review of 2015 service delivery costs indicated a need for an increase. Future fees will increase by 2015 agreement for adjustment over the next several years.

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 POSITION
DECEMBER 31, 2016

Assets	
Cash and Cash Equivalents	$ 1,905,910
Receivables	5,344
Due From State	50,526
Due From Other Local Governments	365,232
Prepaid Items	39,220
Restricted Assets	
Cash	24
Deposits	17,456
Capital Assets	
Machinery and Equipment, net	659,835
Construction in Progress	89,505
Total Assets	3,133,052
Deferred Outflows of Resources	
Pension Related Deferred Outflows	987,926
Total Deferred Outflows of Resources	987,926
Liabilities	
Accounts Payable and Other Accrued Liabilities	161,756
Net Pension Liability	441,742
Long-term Liabilities:	
Due Within One Year	84,617
Due In More Than One Year	350,474
Total Liabilities	1,038,589
Deferred Inflows of Resources	
Pension Related Deferred Inflows	11,832
Total Deferred Inflows of Resources	11,832
Net Position	
Net Investment in Capital Assets	749,340
Restricted for:	
Insurance Pool Capitalization	17,432
Citizens Academy/Employee Appreciation	24
SDRS Pension Purposes	534,352
Unrestricted	1,769,409
Total Net Position	$ 3,070,557

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, 2016

		Program Revenue			Net Expense (Revenue) and Changes in Net Position
Function	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Total Primary Government**
Primary Government					
Governmental Activities					
General Government	$ 4,261,380	$ 72,834	$ 1,271,631	$ 89,505	$ (2,827,410)

General Revenues:	
Taxes:	
E-911 Surcharges	2,502,845
Unrestricted Investment Earnings	14,890
Change in Net Position	(309,675)
Net Position - Beginning	3,380,232
Net Position - Ending	$ 3,070,557

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
GENERAL FUND BALANCE SHEET
DECEMBER 31, 2016

Assets		
Cash & Cash Equivalents (Note 2)	$	1,905,934
Accounts Receivable (Note 2)		5,344
Due From State		50,526
Due From County		365,232
Prepaid Items		39,220
Restricted Assets		17,456
Total Assets	$	2,383,712
Liabilities and Fund Balance		
Liabilities		
Accounts Payable (Note 2)	$	15,011
Accruals (Note 2)		146,745
Total Liabilities		161,756
Fund Balances		
Nonspendable - Prepaid Items		39,220
Restricted - Insurance Capitalization		17,432
Restricted - Citizens Academy/Employee Appreciation		24
Unassigned		2,165,280
Total Fund Balance		2,221,956
Total Liabilities and Fund Balance	$	2,383,712

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

Total Fund Balances for Governmental Funds			$	2,221,956
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				
Non-Depreciable Capital Assets	$	89,505		
Depreciable Capital Assets		2,129,157		
Accumulated Depreciation		(1,469,322)		749,340
Net pension asset (liability) and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:				
Deferred Outflows of Resources		987,926		
Net Pension Asset (Liability)		(441,742)		
Deferred Inflows of Resources		(11,832)		534,352
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.				
OPEB		(251,973)		
Accrued Compensated Absences		(183,118)		(435,091)
Net Position of Governmental Activities			$	3,070,557

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
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2016

Revenues		
E911 Surcharges	$	2,502,845
City/County Share		1,256,625
Services		66,305
Grants		2,817
Contributions		12,189
Other Revenue		21,419
Total Revenues		3,862,200
Expenditures		
Operating		3,904,479
Capital Outlay		23,006
Total Expenditures		3,927,485
Net Change in Fund Balance		(65,285)
Fund Balance, January 1		2,287,241
Fund Balance, December 31	$	2,221,956

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			$	(65,285)
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 depreciation exceeded captial outlay in the current period.				
Expenditures for Capital Assets	$	23,006		
Less Current Year Depreciation		(160,809)		(137,803)
The receipt of contributed capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements.				
Construction in Progress				89,505
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.				
Pension Related Deferred Outflows and Inflows		833,785		
Increase in Compensated Absences		(4,253)		829,532
A negative net pension and OPEB obligation should be reported as an asset in the government-wide statement of net position. Conversely, a negative net pension and OPEB obligation is not considered to represent a financial asset; therefore, it is not properly reported in a governmental fund. The government-wide statement of net activities reports the change in the net pension and OPEB obligation asset from year to year.				
Increase in OPEB		(39,920)		
Increase in Net Pension Liability		(985,704)		(1,025,624)
Change in Net Position of Governmental Activities			$	(309,675)

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

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. Although the current joint agreement expired December 31, 2012, it includes an automatic renewal year to year thereafter, and the agency continues to operate under this agreement.

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 position 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 position. 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. However, 911 surcharge receivables are estimated regardless of their collection date following the year end. 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.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

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, 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, 2016, the Agency had an accounts receivable balance of $5,344.

Accounts Payable, Accruals and other Liabilities – Accounts payable represent amounts due to vendors for goods and services provided/incurred by December 31, 2016. As of December 31, 2016 $15,011 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, 2016 $146,745 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.

Fund Equity - The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- Committed fund balance—amounts constrained to specific purposes by the Agency itself, using its highest level of decision-making authority (i.e., MMC). To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint.

- Assigned fund balance—amounts the Agency intends to use for a specific purpose. Intent can be expressed by the MMC or by an official or body to which the MMC delegates the authority.

- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the Agency's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Pensions – For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Agency contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

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, 2016:

Governmental Activities	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Non-Depreciable Assets				
Construction in Progress	$ -	$ 89,505	$ -	$ 89,505
Depreciable Assets				
Equipment	2,535,052	23,006	(428,901)	2,129,157
Accumulated Depreciation				
Equipment	(1,737,414)	(160,809)	428,901	(1,469,322)
Total Governmental Activities Capital Assets, net	$ 797,638	$ (48,298)	$ -	$ 749,340

Construction In Progress (CIP) - CIP for the year ending December 31, 2016 is the WAVE project. Remaining cost to be associated with CIP is estimated to be $7,000.

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, 2016 was approximately $61,170. 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, 2016, the deposits of the Agency were $1,905,958. No depository fell below the 100 percent of pledged collateral required as of December 31, 2016.

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, 2016, the Agency had a vested value of $17,432 in the cumulative reserve fund.

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

Employees were provided health coverage by DakotaCare and dental coverage by Delta Dental of South Dakota in 2016. 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, 2016 one claim resulting in the payment of benefits was filed, resulting in the benefit total if $1,258.01. As of December 31, 2016, no additional claims had been filed or remained outstanding. Unemployment compensation is charged as a current expenditure when it is incurred.

Note 5 – Pension and Deferred Compensation Plan

Plan Information - All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://www.sdrs.sd.gov/publications/ or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided - SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
    - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
    - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions - Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Agency's share of contributions to the SDRS for the fiscal years ended December 31, 2016, 2015, and 2014 were $153,960, $144,888, and $136,419, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions - At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the Agency as of this measurement period and reported by the Agency as of December 31, 2016 are as follows:

Proportionate share of pension liability	$ 14,190,638
Less proportionate share of net pension restricted for pension benefits	$ 13,748,896

Proportionate share of net pension liability (asset)	$ 441,742
	===========

At December 31, 2016, the Agency reported a liability of $441,742 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016 and the total pension asset used to calculate the net pension asset was based on a projection of the Agency's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the Agency's proportion was .13077420%, which is an increase of .0025204% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Agency recognized a pension expense of $305,879. At December 31, 2016 the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience.	$153,780	$ -
Changes in assumption.	$264,583	$ -

Net Difference between projected and actual earnings on pension plan investments.	$491,367	$ -
Changes in proportion and difference between Agency contributions and proportionate share of contributions.	$ -	$ 11,832
Agency contributions subsequent to the measurement date.	$ 78,196	$ -
TOTAL	$987,926	$ 11,832

$78,196 reported as deferred outflow of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:	
2017	$ 241,691
2018	$ 144,703
2019	$ 307,920
2020	$ 203,583
2021	$ -
TOTAL	$897,897

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current

SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%

Total	100%	
	=====	

Discount Rate - The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate - The following presents the Agency's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Agency's proportionate share of the net pension liability (asset)	$2,471,985	$441,742	($1,214,138)

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

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 per month.

Note 6 – Other Post Employment Benefit Plan (OPEB)

Metro identified its implicit subsidy for post-employment health care benefits other than pensions as of December 31, 2016 using the GASB developed Alternative Measurement Method (AMM) for cities and other government employers with under 100 members.

Plan Description – 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%.

Annual OPEB Cost and Net OPEB Obligation – Metro's annual OPEB cost (expense) is an "implicit subsidy" which is the difference between the actual and the apparent cost for health insurance coverage. This amount has been determined using the AMM in accordance with the parameters of GASB Statement 45. The following table shows the components of the Metro's annual OPEB implicit cost for the year:

	2016
Annual required contribution	$ 39,525
Interest on net OPEB obligation	395
Annual OPEB cost	39,920
Contributions made	-
Change in net OPEB obligation	39,920
Net OPEB oblgation, beginning of year	212,053
Net OPEB obligation, end of year	$ 251,973

Metro's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the previous years (2015, 2014, 2013, 2012, and year of implementation, 2011) were as follows:

Fiscal Year Ended		Annual OPEB Cost		Actual Employer Contribution	Annual OPEB Cost Contributed		Net Ending OPEB Obligation
12/31/2011	$	44,071	$	-	0%	$	(44,071)
12/31/2012	$	44,071	$	-	0%	$	(88,142)
12/31/2013	$	44,071	$	-	0%	$	(132,213)
12/31/2014	$	39,920	$	-	0%	$	(172,133)
12/31/2015	$	39,920	$	-	0%	$	(212,053)
12/31/2016	$	39,920	$	-	0%	$	(251,973)

Funded Status and Funding Progress – As of December 31, 2016, the plan was unfunded. In the January 1, 2014 valuation, the AMM accrued liability for benefits was $310,068 and the AMM value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $310,068. The covered payroll (annual payroll of active employees covered by the plan) was $2,308,980, and the ratio of the UAAL to the covered payroll was 13.4 percent. These changes resulted in a $4,151 decrease in the calculated Estimated Required Contribution (ARC).

AMM valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents a single year’s information, as the standard was first implemented in fiscal year 2011 and recalculated in 2014, when it becomes available, multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AMM accrued liabilities for benefits will be displayed.

AMM and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the December 31, 2014 valuation, the AMM cost method was used. The assumptions included a 1.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer’s own investments calculated based on the funded level of the plan at the valuation.

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 2016 the total support received was $1,256,625, of which the City provided $942,469 and the county provided $314,156.

Several departments within the City and County have historically purchased Audio Request services from the Agency. In 2016, the City did not purchase any Audio Request services from the Agency. County purchases of Audio Request services for the same period totaled $9,961.

In 2016, the Agency paid the County $103,652 for services provided the Agency (Information Technology services, reimbursement of equipment & software licensing/maintenance services, building rent, telephone and postage). During the same period the Agency paid the City $31,298 for services provided the Agency (vehicle use and gasoline, and 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): Communications Operator, Advanced Communications Operator, and Shift Supervisor. A new 3 year contract was negotiated in 2014 and covers the period of January 1, 2015 through December 31, 2017.

Note 9 – Long-term Obligations

A summary of changes in long-term obligations follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued Compensated Absences	$ 178,864	$ 238,224	$ (233,970)	$ 183,118	$ 84,617

Accrued compensated absences consist of unused vacation and sick pay benefits as discussed in Note 2 to the financial statements.

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues				
E911 Surcharges	$ 2,424,014	$ 2,448,014	$ 2,502,845	$ 54,831
City/County Share	1,256,625	1,256,625	1,256,625	-
Services	67,545	67,545	66,305	(1,240)
Other Revenue	15,444	15,444	36,425	20,981
Total Revenues	3,763,628	3,787,628	3,862,200	74,572
Expenditures				
Personnel	3,394,798	3,394,798	3,328,434	66,364
Operating	624,524	624,524	576,045	48,479
Capital Oulay	-	24,000	23,006	994
Total Expenditures	4,019,322	4,043,322	3,927,485	115,837
Revenues over(under) Expenditures	$ (255,694)	$ (255,694)	$ (65,285)	$ 190,409

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 2015. There was a budget amendment in 2016, increasing 911 Surcharge revenue and Capital Outlay Equipment expense by $24,000 each, with no change to use of cash. This amendment was approved by MMC at their regular December, 2016 council meeting.

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, 2016.

Schedule of Funding Progress as required by Statement No. 45 of the GASB – OPEB

AAM Valuation Date	AAM Value of Assets	AAL Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2011	$ -	$ 312,152	$ 312,152	0%	$ 2,129,019	14.7%
1/1/2014	$ -	$ 310,068	$ 310,068	0%	$ 2,308,980	13.4%

NOTE TO THE SCHEDULE OF FUNDING PROGRESS - The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. Metro implemented the standard as of January 1, 2011 and a second valuation was performed on January 1, 2014. As such there are two valuations disclosed above.

Factors that affected the trends in the amounts reported include reduced monthly premiums for single health insurance coverage from $507.16 to $428.24, and an increased number of retirees utilizing this coverage increased from 1 to 2. In addition, the average age of both active employees and retirees increased; active employees from 35.1 to 36.7, and retirees from 57.0 to 58.5. At the same time average years of service increased from 7.3 to 7.7. These changes resulted in a $2,084 decrease in the calculated UAAL. Covered payroll increased by $179,961 over the same period of time resulting in a 1.3% decrease in UAAL as a percentage of coverage payroll.

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY (ASSET)
AND SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2016

Schedule of Employer's Share of Net Pension Asset and Schedule of Employer's Contributions as required by Statement No. 68 of the GASB – Pension for Employers

	Measurement Date 12/31/16	Measurement Date 12/31/15
Contractually required contribution	$ 153,960	$ 144,888
Contributions in relation to the contractually required contribution	$ 153,960	$ 144,888
Contribution deficiency (excess)	$ -	$ -
Agency's covered-employee payroll	$ 2,565,996	$ 2,414,808
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

This schedule is presented to illustrate the requirement to show information for 10 years. Additional years will be reported as they become available.

Schedule of the Agency's Proportionate Share of the Net Pension Liability (Asset) as required by Statement No. 68 of the GASB – Pension for Employers

	Measurement Date 06/30/16	Measurement Date 06/30/15
Agency's proportion of the net pension liability (asset)	0.1307742%	0.1282538%
Agency's proportionate share of net pension liability (asset)	$ 441,742	$ (543,961)
Agency's covered-employee payroll	$ 2,486,665	$ 2,341,559
Agency's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.76%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%

This schedule is presented to illustrate the requirement to show information for 10 years. Additional years will be reported as they become available.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of Metro Communications Agency (the Agency) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated May 17, 2017.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
May 17, 2017