



METRO COMMUNICATIONS AGENCY

Sioux Falls, South Dakota

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

Financial Statements

Year Ended December 31, 2022

First to Serve

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
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YEAR ENDED DECEMBER 31, 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matter described in the "Basis for Qualified and Unmodified Opinions" section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Agency, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on the General Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund of the Agency as of December 31, 2022, and the respective changes in financial position for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Metro Communications Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinion on the Governmental Activities

Management has elected not to adopt the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for their single employer postemployment benefit plan. Accounting principles generally accepted in the United States of America require recognition and measurement of an asset or liability, deferred outflows of resources, deferred inflows of resources, and expenses associated with other post-employment benefits (OPEB). The standard also requires certain note disclosures and required supplementary information (RSI) about the OPEB plan. The amounts by which the departure would affect net position, assets, liabilities, deferred outflows of resources and deferred inflows of resources, expenses, disclosures and RSI are not reasonably determinable.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Metro Communications Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Metro Communications Agency's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Metro Communications Agency’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 Employer’s Share of Net Pension Liability (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 April 20, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency’s 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.



Sioux Falls, South Dakota
April 20, 2023

METRO COMMUNICATIONS AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

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, 2022.

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 \$2,668,476.
- At the end of the current fiscal year, total unrestricted net position was \$1,394,487.

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 13-14 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 35-36 of this report.

The basic governmental fund financial statements can be found beginning on page 15 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 17 of this report.

The following schedules reflect condensed financial information for the Agency.

Condensed Statement of Net Position

	<u>2021*</u>	<u>2022</u>
Assets	\$ 2,785,988	\$ 3,385,258
Deferred Outflows of Resources - Pensions	1,385,900	1,244,273
Liabilities		
Current Liabilities	296,429	987,552
Long-Term Liabilities	163,364	172,239
Total Liabilities	459,793	1,159,791
Deferred Inflows of Resources - Pensions	2,089,401	801,264
Net Position		
Net Investment in Capital Assets	177,953	817,340
Restricted	374,334	456,649
Unrestricted	1,070,407	1,394,487
Total Net Position	\$ 1,622,694	\$ 2,668,476

**Items may not be comparable due to the application of GASB 87, the Agency chose not to restate the 2021 financial statements for this standard.*

Total Agency's Assets increased, while Deferred Outflows of Resources decreased, during the current fiscal year. The 2022 increase in Assets was due in great part to a significant Due from State and Other Local Governments, reflective of contributions of revenue for operating expenses and Construction in Progress (CIP) of capital assets recognized in 2022 for the new PSAP the agency will occupy in the fall of 2023. Much of this increase is for the purchase of radio system equipment for consoles in the new PSAP. Other increases to assets were increased cash, as budgeted, along with recognition of Lease assets under GASB 87, offset by decreased net Machinery and Equipment due to annual depreciation expense and a significant reduction in net Pension Asset under GASB 68. The source of the 2022 decrease in Deferred Outflows of Resources is reflective of Deferred Outflows of Resources for Pensions under GASB 68.

Total Liabilities increased, while Deferred Inflows of Resources decreased, during the current fiscal year. The increase in Total Liabilities is attributable in great part to the CIP recognized in 2022 but remaining unpaid as of year end, along with recognition of Lease liabilities under GASB 87 and increased Pension Liabilities under GASB 68. The source of the 2022 decrease in Deferred Inflows of Resources is reflective of Deferred Inflows of Resources for Pensions under GASB 68.

At the end of the current fiscal year, both Unrestricted Net Position and Total Net Position increased. Investment in Capital Assets increased by \$639,387 due to the addition of new radio equipment received during the year but not put into full service. Restricted assets increased for SDRS Pension Purposes for GASB 68.

Condensed Statement of Activities

	<u>2021</u>	<u>2022</u>
Revenues		
Charges for Services	\$ 150,398	\$ 194,551
Operating Grants and Contributions	2,287,301	3,334,328
General Revenues	2,670,194	2,808,466
	5,107,893	6,337,345
Total Revenues		
Expenses - General Government	4,667,102	5,291,563
	440,791	1,045,782
Revenues Over (Under) Expenses		
Net Position, January 1	1,181,903	1,622,694
	\$ 1,622,694	\$ 2,668,476
Net Position, December 31		

Total revenues increased by \$1,229,452 during the current fiscal year. This is due in great part to increased 911 surcharges, City and County Support, PSAP fees, local funding grants, increased recoveries due to insurance proceeds for tower structure, and interest earnings.

Total expenses increased \$624,461 during the current fiscal year. The due to a significant decrease in GASB 68 and depreciation, offset by increased personnel expenses and operating expenses.

Net Position increased during the current fiscal year. This is attributable in great part to addition to Cash Reserve and GASB 68.

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 2012. At the same time the State began collecting all surcharges for lines within the state of South Dakota. 2017 legislation extended this increase to mid-year 2018, and 2018 legislation repealed the scheduled sunset, maintaining the \$1.25 per line per month subscriber fee indefinitely. Local fees remained the same throughout 2022, with 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 the 11 PSAPs across the state which meets the requirements for receipt of incentive funding. The formula for distribution of incentive funds remained the same throughout 2022 and utilizes population. 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. The census update for 2020 was completed mid-year

2021, increasing the agency's share from 33.33% to 35.69% of this statewide portion, net of fees. This share will remain unchanged now until the census update for 2025, unless other share for any of the eligible PSAPs across the state change. This type of change is not currently anticipated.

Surcharge revenues for the year totaled \$2,783,656. This was \$117,322 greater than 2021 revenues, and \$100,359 more than budgeted for 2021. The increase in actual revenues is largely reflective of subscriber growth within Minnehaha County and the City of Sioux Falls within Lincoln County. Due to the 2020 census adjustments for incentive shares in July of 2021, agency funds from incentives began to better reflect the increased growth within our subscriber area. During 2022, trends reflected an increase in subscribers statewide, with a similar share of this growth in the agency's direct subscribers. 2022 was the tenth 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 continues to shift from land lines to wireless and VoIP subscribers, along with a smaller growth in wireless subscribers.

Secondary to surcharges is the City and County support of the Agency. City and County share for the year totaled \$2,584,955, an increase of 15% from 2021. The individual percentage of contribution was City 75% and County 25%.

Service revenue totals for the year was \$138,006. This was \$8,936 less than 2021 revenues, and \$5,282 less than budgeted for 2022. The majority of the decrease from 2021 is due to a lesser PSAP Service fee assessed to the City of Brandon for providing dispatch services for their police department. The shortfall in comparison of 2022 actual to budgeted service revenues is due to the reconciled adjustment in PSAP service fees assessed to the City of Brandon based on actual 2022 revenues and expenditures. 2022 budgeted amounts were based on 2020 annual activity, along with the first several months of 2021, available at the time the 2022 budget was projected.

Grant funds totaled \$86,212. These are local funding dollars from State of SD 911 Coordination Board and EMS, used for grant for equipment and CIP for the new PSAP facility.

Personnel expenditures totaled \$4,675,279 for the year. This was \$396,833 less than budgeted and resulted in great part to reduced employee insurance premium increases and staffing vacancies which reduced regular salaries, temp staffing costs, retirement, payroll taxes and insurance premiums, offset by increased overtime costs.

Operating expenditures for the year totaled \$646,330. This was \$19,955 less than budgeted and is due in great part to decreased training and travel along with dispatch communications costs savings.

Capital Assets and Debt Administration –The investment in capital assets for the governmental activities as of December 31, 2022, amounted to \$827,768 (net of accumulated depreciation and amortization) in equipment.

The Agency's investment in capital assets net of accumulated depreciation and amortization, increased by \$632,784 in the current fiscal year. This increase is primarily due to an increase in radio equipment purchased with the help of local contributions. Total equipment purchased and in construction in progress at year-end was \$663,161.

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

Lease Liabilities -

With the application of GASB 87 in the year-ended December 31, 2022, the Agency is now subject to Right-to-Use Liabilities for long-term leases entered into. The current liability balance for these leases is \$10,428 with a current portion of \$4,439. Further information can be found in Note 2 in the Notes to the Financial Statements.

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 initially no longer received individual provider specific data. This changed mid-year 2018 when legislation provided additional resources and details to more effectively monitor subscriber fluctuations. The agency continues to receive statistics by type of provider: landline, wireless and VoIP. The agency continues to track and monitor these statistics monthly, along with the additional provider details, 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 from locations outside the City of Sioux Falls and Minnehaha County, while recognizing the agency's share of incentive funds are adjusted for this growth only every 5 years, as described above. 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. Subscriber growth relative to net population increase, new provider identification, verification of accurate collections and remittance both by provider and subscriber remain a concern and priority for ongoing review.

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. This temporary increase was first extended by 2017 legislation, and ultimately made permanent in 2018 when legislation removed rather than extended the sunset for this increase. A portion of the 2012 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 current 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. 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 2025 with likely availability of census data along with completion of adjustments mid-year 2026. These continue to be a concern of the Metro Management Council (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 \$6,844 over the \$68,971 originally budgeted for revenue in 2022.

2022 Audio Request fees were budgeted based on actual 2020 data as compared to year to date 2021 data at the time of 2022 budget preparation, along with historical trends. Actual 2022 Audio Request fees were \$3 less than the budgeted amount of \$13,423.

2022 was the seventh full year of EMS transfer service fees. Total fees for 2022 were \$62,459. This is \$1,565 more than the budgeted amount of \$60,894. This increase is continues to be reflective of a return to 2019 average number of transfers, along with growth in several months throughout 2022. Rate per transfer increased in May 2021, with future increases by agreement through April 2026.

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, 2022**

Assets			
	Cash and Cash Equivalents		\$ 1,270,680
	Receivables		21,744
	Due From State		223,683
	Due From Other Local Governments		973,664
	Prepaid Items		54,079
	Net Pension Asset		13,640
	Capital Assets		
	Machinery and Equipment, net		154,428
	Construction in Progress		663,161
	Right-to-Use Assets, net		10,179
	Total Assets		<u>3,385,258</u>
Deferred Outflows of Resources			
	Pension Related Deferred Outflows		<u>1,244,273</u>
Liabilities			
	Accounts Payable and Other Accrued Liabilities		823,210
	Long-term Liabilities:		
	Due Within One Year		164,342
	Due In More Than One Year		172,239
	Total Liabilities		<u>1,159,791</u>
Deferred Inflows of Resources			
	Pension Related Deferred Inflows		<u>801,264</u>
Net Position			
	Net Investment in Capital Assets		817,340
	Restricted for:		
	SDRS Pension Purposes		456,649
	Unrestricted		1,394,487
	Total Net Position		<u>\$ 2,668,476</u>
<i>The accompanying notes are an integral part of these financial statements.</i>			

**METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

		Program Revenue		Net Expense (Revenue) and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions
Function				
Primary Government				
Governmental Activities				
General Government	\$ 5,291,118	\$ 194,551	\$ 3,334,328	\$ (1,762,239)
Interest on long-Term Debt	445	-	-	(445)
Total Government	<u>\$ 5,291,563</u>	<u>\$ 194,551</u>	<u>\$ 3,334,328</u>	<u>(1,762,684)</u>
	General Revenues:			
	Taxes:			
	E-911 Surcharges			2,783,656
	Unrestricted Investment Earnings			24,810
	Change in Net Position			1,045,782
	Net Position - Beginning			1,622,694
	Net Position - Ending			<u>\$ 2,668,476</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
GENERAL FUND BALANCE SHEET
DECEMBER 31, 2022

Assets		
Cash & Cash Equivalents (Note 2)		\$ 1,270,680
Accounts Receivable (Note 2)		21,744
Due From State		223,683
Due From Other Local Govt		973,664
Prepaid Items		54,079
Total Assets		<u>\$ 2,543,850</u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable (Note 2)		\$ 760,438
Accruals (Note 2)		62,694
Total Liabilities		<u>823,132</u>
Fund Balances		
Nonspendable - Prepaid Items		54,079
Unassigned		1,666,639
Total Fund Balance		<u>1,720,718</u>
Total Liabilities and Fund Balance		<u>\$ 2,543,850</u>
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position		
Total Fund Balances for Governmental Funds		\$ 1,720,718
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	\$ 663,161	
Depreciable Capital Assets	2,453,117	
Accumulated Depreciation	(2,298,689)	817,589
Right-to-use assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of Right-to-Use Assets	17,031	
Accumulated Amortization	(6,852)	10,179
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	1,244,273	
Net Pension Asset (Liability)	13,640	
Deferred Inflows of Resources	(801,264)	456,649
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital Leases	(10,428)	
Accrued Interest	(78)	
Accrued Compensated Absences	(326,153)	(336,659)
Net Position of Governmental Activities		<u>\$ 2,668,476</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
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
YEAR ENDED DECEMBER 31, 2022

Revenues		
E911 Surcharges		\$ 2,783,656
City/County Share		2,584,955
Services		138,006
Grants		86,212
Contributions		663,161
Other Revenue		81,355
		<hr/>
Total Revenues		6,337,345
Expenditures		
Operating		5,321,609
Debt Service		
Principal		6,603
Interest		367
Capital Outlay		663,161
		<hr/>
Total Expenditures		5,991,740
		<hr/>
Net Change in Fund Balance		345,605
		<hr/>
Fund Balance, January 1		1,375,113
		<hr/>
Fund Balance, December 31		\$ 1,720,718
<u>Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities</u>		
Net Change in Fund Balances - Total Governmental Funds		\$ 345,605
Amounts reported for governmental activities in the Statement of activities are different because:		
Governmental funds report capital outlays and leases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization expense exceeded capital outlay in the current period.		
Expenditures for Capital Assets	\$ 663,161	
Less Current Year Depreciation	(23,525)	
Less Current Year Amortization	(6,852)	\$ 632,784
		<hr/>
Payment of long-term capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal Payments		6,603
		<hr/>
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	1,146,510	
Accrued Interest	(78)	
Increase in Compensated Absences	(21,447)	1,124,985
		<hr/>
A negative net pension obligation should be reported as an asset in the government-wide statement of net position. Conversely, a negative net pension 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 obligation asset from year to year.		
Decrease in Net Pension Asset		(1,064,195)
		<hr/>
Change in Net Position of Governmental Activities		\$ 1,045,782

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, 2022

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. A supplement was agreed to and adopted by the City and County on October 2, 2020, and amended December, 2021, to set forth the terms and conditions under which the City and the County would construct, operate and maintain a PSAP within the City’s public safety training facility for their common use, estimated occupancy date in the fall of 2023. See Note 8 for further information on the new public safety training facility.

The Agency operates under the direction and supervision of the Metro Management Council (the “MMC”) to plan, organize, control and manage all communications systems used by the County and City for the provision of emergency services. The MMC approves operational policies governing the day-to-day operations of the Agency. The 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. The 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 the MMC. The Director appoints the Operations Manager and Business Manager upon the advice and with the consent of the 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 the MMC. As an ex-officio member of the 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, 2022, the Agency had an accounts receivable balance of \$21,744 and no allowance was considered necessary.

Accounts Payable, Accruals and other Liabilities – Accounts payable represent amounts due to vendors for goods and services provided/incurred by December 31, 2022. As of December 31, 2022, \$760,438 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, 2022, \$62,694 was the amount due to vendors and employees for payroll related accruals.

Long-term Obligations — In the government-wide financial statements, long-term debt, right to use leases and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, the face amount of debt and leases issued is reported as other financing sources.

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 or upon separation in good standing, 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

Right-to-use leased assets are recognized at the lease commencement date and represent the Agency's right to use an underlying asset for the lease term. Right to use leased assets are measure at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period of current leased items is three years.

Implementation of GASB Statement No. 87 – As of January 1, 2022, the Agency adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right to use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 9 and the

additional disclosures required by this standard are included in the next few pages below.

The following illustrates capital assets and right-to-use leased assets and estimated depreciation and accumulated amortization that are reported for the year ended December 31, 2022:

	Beginning Balance (Restated)	Additions	Transfers & Retirements	Ending Balance
Governmental Activities				
Non-Depreciable Assets				
Construction in Progress	\$ -	\$ 663,161	\$ -	\$ 663,161
Depreciable Assets				
Equipment	2,462,296	-	(9,179.00)	2,453,117
Totals at Historical Cost	2,462,296	663,161	(9,179)	3,116,278
Accumulated Depreciation				
Equipment	(2,284,343)	(23,525)	9,179.00	(2,298,689)
Total Accumulated Depreciation	(2,284,343)	(23,525)	9,179	(2,298,689)
Net Capital Assets	177,953	639,636	-	817,589
Right-to-Use Leased Assets Being Amortized				
Right-to-Use Leased Equipment	17,031	-	-	17,031
Totals at Historical Cost	17,031	-	-	17,031
Accumulated Amortization				
Right-to-Use Leased Equipment	-	(6,852)	-	(6,852)
Total Accumulated Amortization	-	(6,852)	-	(6,852)
Net Right-to-Use Leased Assets	17,031	(6,852)	-	10,179
Governmental Activities Capital Assets, Net	\$ 194,984	\$ 632,784	\$ -	\$ 827,768

Long-Term Obligations – The following is a summary of changes in long-term liabilities, including the current portion, of Agency for the year ended December 31, 2022.

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Due Within One Year
Right-To-Use Leases	\$ 17,031	\$ -	\$ (6,603)	\$ 10,428	\$ 4,439
Accrued Compensated Absences	304,706	329,380	(307,933)	326,153	159,903
Government Type activities, Long-term liabilities	\$ 321,737	\$ 329,380	\$ (314,536)	\$ 336,581	\$ 164,342

Remaining principal and interest payments on right-to-use leases are as follows:

Year	Principal	Interest	Payment
2023	\$ 4,439	\$ 274	\$ 4,713
2024	2,898	166	3,064
2025	3,091	66	3,157
Total	\$ 10,428	\$ 506	\$ 10,934

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

Leases – On June 1, 2008, the Agency entered into a 180-month lease as Lessee for a building lease for the dates of June 1, 2008 – May 31, 2023. An initial lease liability was recorded in the amount of \$5,351. As of December 31, 2022, the value of the lease liability is \$1,724. The Agency is required to make fixed monthly payments of \$340. The lease has an interest rate 3.37 percent. The building’s estimated useful life was 40 years as of the contract commencement. The value of this right-to-use asset as of December 31, 2022, is \$5,691, with accumulated amortization of \$4,017. This building on the Lease Class activities table found above. There are no future purchase or renewal options for this lease.

On January 1, 2021, the Agency entered into a 60-month lease as Lessee for a building leases. An initial lease liability was recorded in the amount of \$10,618. As of December 31, 2022, the value of the lease liability is \$8,704. The Agency is required to make variable quarterly payments which are \$744 for 2022. The lease has an interest rate of 3.37 percent. The building’s estimated useful life was 40 years as of the contract commencement. The value of the right to use asset as of December 31, 2022 of \$11,340 with accumulated amortization of \$2,835. This building on the Lease Class activities table found above. There are no future purchase or renewal options for this lease.

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, 2022, the deposits of the Agency were \$1,285,875. No depository fell below the 100 percent of pledged collateral required as of December 31, 2022.

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 joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Agency's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Agency. The Agency pays a Members' Annual Operating Contribution, 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. Government General Liability
- b. Law Enforcement Liability

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing Members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing Member with such a partial refund because the departing Member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing Member pursuant to the revised IGC.

The agency reflected the effects of the new SDPAA policy in the financial statements as a Change in Accounting Estimate in the Statement of Activities and the Fund Operating Statements and also eliminated the reporting of the Deposit on the Statement of Net Position and Fund Balance Sheet in the prior year financial statements.

The Agency carries a \$ -0- deductible for the General Liability coverage and \$5,000 deductible for the Law Enforcement Liability coverage.

The Agency does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Employees were provided health coverage by Wellmark BlueCross BlueShield of South Dakota and dental coverage by Principal in 2022. 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, 2022, no claims resulting in the payment of benefits were filed. There were no benefits paid in 2022. As of December 31, 2022, no new claims were filed or remained outstanding. However \$1,950 of the benefits paid in 2018 were to an individual later determined to be ineligible and subject to recovery by the South Dakota Department of Labor and Regulation on behalf of the agency. This item remains classified as a receivable on the Agency's balance sheet. As of December 31, 2022, \$1,722.75 in recoveries had been received towards this overpayment of benefits, reducing the balance due to \$227.25. 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://sdrs.sd.gov/publications.aspx> 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 general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B

eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent 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,

2022, 2021, and 2020 were \$216,542, \$194,815, and \$197,046, 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, 2022, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Agency as of this measurement period and reported by the Agency as of December 31, 2022 are as follows:

Proportionate share of pension liability	\$ 20,373,528
Less proportionate share of net pension restricted for pension benefits	(20,38,168)

Proportionate share of net pension liability (asset)	\$ (13,640)
	=====

At December 31, 2022, the Agency reported an asset of \$13,640 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022, 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, 2022, the Agency's proportion was .14432300 percent, which is an increase of .0035820 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the Agency recognized a reduction of pension expense of \$82,314. At December 31, 2022, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 259,637	\$ 885
Changes in assumption.	866,880	759,705
Net Difference between projected and actual earnings on pension plan investments.	-	32,686
Changes in proportion and difference between Agency contributions and proportionate share of contributions.	320	7,988
Agency contributions subsequent to the measurement date.	117,436	-
	-----	-----
TOTAL	\$ 1,244,273	\$ 801,264
	=====	=====

\$117,436 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, 2023. 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:	
2023	\$ 86,406
2024	187,171
2025	(217,610)
2026	269,606
2027	--

TOTAL	\$ 325,573
	=====

Actuarial Assumptions - The total pension asset in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of pension plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	2.10%

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020.

Active and Terminated Vested Members

- Teachers, Certified Regents, and Judicial: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

Retired Members:

- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108 percent of rates above age 65
- Other Class A Retirees: PubG-2010, 93 percent of rates through age 74, increasing by 2 percent per year until 111 percent of rates at 83 and above
- Public Safety Retirees: PubS-2010, 102 percent of rates at all ages

Beneficiaries:

- PubG-2010 contingent survivor mortality table

Disabled Members

- Public Safety: PubS-2010 disable member mortality table
- Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

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, 2022 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%

Total	100%	
	=====	

Discount Rate - The discount rate used to measure the total pension asset was 6.50 percent. 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 will be made at equal rates equal to the member rate. Based on those 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 asset.

Sensitivity of liability (asset) to changes in the discount rate - The following presents the net pension liability/(asset) of SDRS, calculated using the discount rate of 6.50 percent, as well as what SDRS net pension asset would be if it were calculated using a discount rate that is 1 percent point lower (5.50 percent) or 1 percent point higher (7.50 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Agency’s proportionate share of the net pension liability (asset)	\$2,832,102	\$(13,640)	(\$2,339,362)

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 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 2022 the total support received was \$2,584,955, of which the City provided \$1,938,717 and the county provided \$646,238.

As of December 31, 2022, the Agency has \$568,944 Due from Other Local Governments, for furniture, fixtures, and equipment (FF&E) for the Agency PSAP to be housed in the City's new Public Safety Training Facility. Approximately \$529,951 reflects CIP for capital assets received but unbilled at year end, while \$38,993 reflects Operating Expenses for equipment purchased and received by year end.

Several departments within the City and County have historically purchased Audio Request services from the Agency. In 2022, the City did not purchase any Audio Request services from the Agency. County purchases of Audio Request services for the same period totaled \$7,990.

In 2022, the Agency paid the County \$76,330 for services provided by the Agency (Information Technology services and building rent). During the same period the City billed the Agency \$93,872 for services provided the Agency (mileage for vehicle use. CAD software maintenance, 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. During 2020, a new 3 year contract was negotiated covering the period of January 1, 2021 through December 31, 2023. During 2022, modifications to Article 4, Wages for a 5.25% COLA in 2023 were

negotiated following written request by the Union in December 2021, as allowed under Article 37 Term of the current contract.

PSAP to be located within City’s New Public Safety Training Facility – As of December 31, 2022 the Agency committed to or purchased \$1,593,076 in FF&E to be located within the City’s public safety training facility. This commitment included the 2023 purchase, under the State of South Dakota Proposal, of \$1,520,816 for PSAP radio dispatch equipment, of which approximately \$663,161 had been received by the Agency but remained unbilled. In addition, the Agency purchased and received \$72,260 in Operating Expense equipment. An additional \$,1,031,121 will be used for the purchase of FF&E to also be located within the City’s public safety training facility. Funding for the total purchases includes \$474,197 through the State of SD 911 Coordination Board, along with \$2,150,000 which will be provided to the Agency by the County pursuant to the October 2, 2021 agreement, and related amendments, as referenced in Note 1.

Note 9 – Restatement - As of January 1, 2022, the Agency adopted GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Beginning net position and fund balance was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

Net Position - December 31, 2021 As Previously Stated			\$1,622,694
Add Right-to-Use Assets as of January 1, 2022			17,031
Add Right-to-Use Lease Liabilities as of January 1, 2022			(17,031)
Net Position - January 1, 2022, As Restated			\$1,622,694

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, 2022

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues				
E911 Surcharges	\$ 2,683,297	\$ 2,683,297	\$ 2,783,656	\$ 100,359
City/County Share	2,584,955	2,584,955	2,584,955	-
Services	143,288	143,288	138,006	(5,282)
Other Revenue	1,101,308	1,101,308	830,728	(270,580)
Total Revenues	6,512,848	6,512,848	6,337,345	(175,503)
Expenditures				
Personnel	5,072,112	5,072,112	4,675,279	396,833
Operating	646,330	666,285	646,330	19,955
Debt Service	-	-	6,970	(6,970)
Capital Oulay	-	675,000	663,161	11,839
Total Expenditures	5,718,442	6,413,397	5,991,740	421,657
Revenues over(under) Expenditures	794,406	99,451	345,605	(246,154)
Net Change in Fund Balances	\$ 794,406	\$ 99,451	\$ 345,605	\$ (246,154)

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, 2022

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 2021. There were two budget amendments in 2022, increasing Capital Outlay by \$675,000 and Operating expenditures by \$100,000, supported through increased revenues of \$775,000, and no change in use of Cash. These amendments were approved by the MMC at their regular December, 2022 and March 2023 council meetings.

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, 2022.

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, 2022

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 12/31/22	Measurement Date 12/31/21	Measurement Date 12/31/20	Measurement Date 12/31/19	Measurement Date 12/31/18	Measurement Date 12/31/17	Measurement Date 12/31/16	Measurement Date 12/31/15
Contractually required contribution	\$ 216,542	\$ 194,815	\$ 197,046	\$ 177,520	\$ 174,988	\$ 165,742	\$ 153,960	\$ 144,888
Contributions in relation to the contractually required contribution	\$ 216,542	\$ 194,815	\$ 197,046	\$ 177,520	\$ 174,988	\$ 165,742	\$ 153,960	\$ 144,888
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agency's covered payroll	\$ 3,608,019	\$ 3,263,578	\$ 3,284,104	\$ 2,956,162	\$ 2,918,977	\$ 2,762,369	\$ 2,565,996	\$ 2,414,808
Contributions as a percentage of covered payroll	5.97%	5.97%	6.00%	6.01%	6.00%	6.00%	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 06/30/23	Measurement Date 06/30/21	Measurement Date 06/30/20	Measurement Date 06/30/19	Measurement Date 06/30/18	Measurement Date 06/30/17	Measurement Date 06/30/16	Measurement Date 06/30/15
Agency's proportion of the net pension liability (asset)	0.1443230%	0.1407410%	0.1403351%	0.1361589%	0.1369656%	0.1317940%	0.1307742%	0.1282538%
Agency's proportionate share of net pension liability (asset)	\$ (13,640)	\$ (1,077,835)	\$ (6,095)	\$ (14,429)	\$ (3,194)	\$ (11,960)	\$ 441,742	\$ (543,961)
Agency's covered payroll	\$ 3,446,214	\$ 3,193,872	\$ 3,079,936	\$ 2,895,021	\$ 2,847,389	\$ 2,677,784	\$ 2,486,665	\$ 2,341,559
Agency's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.40%	33.75%	0.20%	0.50%	0.11%	0.45%	17.76%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.10%	105.52%	100.04%	100.09%	100.02%	100.10%	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.								
* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30.								

METRO COMMUNICATIONS AGENCY,
A COMPONENT UNIT OF THE CITY OF SIOUX FALLS, SOUTH DAKOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET AND
SCHEDULE OF PENSION CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2022

Changes from Prior Valuation – The June 30, 2022 Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes – During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

Actuarial Assumption Changes – As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021 and presented to the SDRS Board of Trustees in April and June, 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022 actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

Actuarial Method Changes – Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.



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 then ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Agency’s basic financial statements and have issued our report thereon dated April 20, 2023.

In our report our opinion on the financial statements was qualified, as discussed in the “Basis for Qualified and Unmodified Opinions” section of the report on the financial statements. Management did not obtain an actuarial valuation for the other postemployment benefits (OPEB) liability and therefore did not record an asset or liability, deferred outflows of resources, deferred inflows of resources, and expenses associated with OPEB, as well as certain note disclosures and required supplementary information (RSI) about the OPEB plan.

Report on 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) as a basis for designing 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 been identified.

Report on 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 financial statements. 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.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
April 20, 2023