

AGENDA	Tuesday, October 12, 2010	
Informational		4:00 p.m. a
t Carnegie Town		
Hall		
Sioux Falls City Council		235 West 10th
Street		

1. Call To Order
2. City Council Staff Report
 - A. Debra A. Owen, City Clerk/Chief of Council Operations
3. Mayor Huether
4. Audit Committee
5. Fiscal Committee
6. Land Use Committee
7. Public Services Committee
8. City Council Open Discussion
9. Presentations
 - A. In-Home Daycare Registration Inspection Process (Administrative Changes),
Jill Franken, Public Health Director; and LuAnn Ford, Public Health Manager

Day Care Powerpoint
 - B. Event Center Update by Mayor Mike Huether

Events Center Update 10-12-10

C. CAFR Review Internal Audit Report by Rich Oksol, Lead Internal Auditor

CAFR Review 10-06

10. Adjournment

Date: 2010-10-12
SIRE Meeting ID: 874
Meeting Type: Informational Meeting

YouTube:<https://youtu.be/2pHtlgtWC3A>
Agenda Item: Not Assigned
Item ID: 39370

The following document(s) are public records obtained from the
City of Sioux Falls.

In-Home Day Care Inspection



Day Care Statistics

	2006	2007	2008	2009	2010 (YTD: 9/22/10)
Number of Day Cares	393	408	426	438	427
Number of Complaints	20	33	47	44	40

Majority of concerns are:

- Too many children in care.
- Unsafe conditions.
- Provider not meeting requirements for registration.

We will begin by doing inspections of day cares where we have received concerned calls as well as new providers—both a pre- and post-opening inspection.

Goal No. 1—Provide operators with education and clarification on requirements.

Goal No. 2—Provide parents with another avenue to assess the day care provider.

Types of Things We Will Look for on an Inspection

1. Verify that the people who frequent the home have passed all screenings including abuse and neglect, sex offender registry, and all providers and helpers have additional screenings and education needed.
2. Do random checks on the number of children in care and adult/child ratios.
3. Check safety items such as chemical and pharmaceutical storage, the proper storage of sharp objects and weapons, and also assess the day care for other hazardous situations.

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Agenda Item: Not Assigned
Item ID: 39372

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City of Sioux Falls.

Comprehensive Annual Financial Report Review September 2010



**Internal Audit
City of Sioux Falls, South Dakota**

COMPREHENSIVE ANNUAL FINANCIAL REPORT REVIEW

Internal Audit

City of Sioux Falls, SD

Highlights of report 10-06

Why Internal Audit did this report

The Comprehensive Annual Financial Report (the CAFR) contains the audited financial statements of the City of Sioux Falls. However, the CAFR is over 100 pages long and some readers may find this document difficult to read and understand. As part of our 2010 Annual Audit Plan approved by the City Council, we reviewed and analyzed the 2009 City of Sioux Falls CAFR. We identified financial trends for the past five years and compared financial and statistical information in the 2009 CAFR with benchmark cities in the Upper Midwest.

Information is presented in the form of graphs and ratios to help facilitate understanding. We also researched information on what financial analysts consider favorable and unfavorable trends and ratios. By comparing Sioux Falls to benchmark cities, we believe the City Council and the citizens of Sioux Falls will have a clearer picture of the financial condition of the City.

What Internal Audit concluded

The financial strength of the City of Sioux Falls is excellent. We compare favorably to the 12 benchmark cities used in this report.

- Solvency, both short term and long term, is strong.
- The City is in a good financial position to weather emergencies and a bad economy.
- Long-term debt has increased substantially since 2007. However, it is not at a warning level.
- The number of City employees per capita has been steady and is less than the per capita ratio for the benchmark cities.
- General fund operating expenditures per capita have remained steady.

We would like to commend the administration and the City Council for fiscal policies and practices that have led to the strong financial position highlighted in this report.

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INTRODUCTION

This review of the City's 2009 Comprehensive Annual Financial Report (CAFR) is intended to encourage discussion of the City of Sioux Falls' financial condition. Internal audit selected the various ratios and financial indicators for this review. We were guided by information in the ICMA publication, *Evaluating Financial Condition: a Handbook for Local Government*. Data came primarily from the CAFR of the City of Sioux Falls and the CAFRs of the 12 comparison cities.¹

The strengths of this approach include:

- Sioux Falls data and comparative data was compiled under consistent accounting principles and audited under Government Auditing Standards.
- Analysis was performed independent of City management and offers a new perspective of the City's financial condition.

Limitations of this approach include:

- The analysis is historical rather than a projection of future financial condition.
- The analysis provides a broad overview rather than detailed analysis.
- The analysis does not attempt to measure level and quality of services.

AUTHORIZATION

This review was included in Internal Audit's 2010 Annual Audit Plan. The City Council approved the Plan by resolution in December 2009. Internal Audit operates under the authority of an Internal Audit Charter, adopted by City Council Resolution 104-06.

¹ See appendix 2 on page 16 of this report for information on the comparison cities.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs, activities and departments it audits and reviews, both in appearance and in fact. The Lead Internal Auditor is accountable to an Audit Committee appointed by the City Council per City Ordinance 120-05.

DETAILED RESULTS

USE OF CONSTANT DOLLARS FOR MULTI-YEAR COMPARISONS

For several financial indicators, we expressed financial information in the form of constant dollars. Constant dollars are dollars adjusted for the impact of inflation. When presenting analysis using constant dollars, we used the price index produced by the federal government called *the implicit price deflator for state and local government purchases of goods and services*.

Although not as well known as the consumer price index (CPI), the implicit price deflator is favored by many analysts because it focuses more on the goods and services purchased by municipalities.²

TOP TAXPAYERS

Because the property tax is a large revenue source for the City of Sioux Falls, we are vulnerable if too much of the property tax base is tied to the fortunes of a few taxpayers. There may be cause for concern if the top five taxpayers hold more than 20 percent of the community's total valuation.³ The statistical section of the CAFR contains information on the top taxpayers.

² *Evaluating Financial Condition: a Handbook for Local Government*, page 198.

³ *Ibid*, page 123.

Figure 1
Sioux Falls Top Five Property Taxpayers as a percentage of total valuation

2005	2006	2007	2008	2009
3.7%	3.5%	3.5%	3.2%	3.3%

Conclusion: Favorable trend; there is not a high percentage of assessed valuation in a few large property taxpayers. The trend is that the top taxpayers represent a steadily decreasing percentage of the total assessed valuation.

NET ASSETS OVER TIME

The Statement of Net Assets in the City's CAFR presents information on city-wide assets (what the City owns) and liabilities (what the City owes). The difference between the two is reported as net assets. Over time, net assets may serve as a useful indicator of a government's financial position.⁴

Figure 2
Sioux Falls Net Assets Adjusted for Constant Dollars (2005 base year)

2005	2006	2007	2008	2009
\$858	\$886	\$905	\$923	\$964

(Figures in millions of dollars)

Conclusion: Favorable trend; the City of Sioux Falls' financial health is improving steadily based on this indicator of financial condition.

⁴Governmental Accounting Standards Board (GASB) newsletter, May 2007, *Touring the Financial Report*.

LIQUIDITY

Liquidity is a good measure of a local government's short-term financial condition. A government with poor liquidity does not have sufficient cash in order to pay its short-term obligations. A liquidity ratio of less than one to one, for example 0.7, is considered a negative factor. We calculated the liquidity ratio for the City of Sioux Falls by dividing the City's cash and cash equivalents by the total of accounts payable, current liabilities and that portion of long-term liabilities due within one year.

Figure 3
Sioux Fall Liquidity Ratio
(Total governmental and business-type activities)

2005	2006	2007	2008	2009
3.2	4.2	6.3	4.9	5.6

Conclusion: Favorable trend; the City's liquidity is strong. The City of Sioux Falls is in good position to pay its short-term obligations.

GENERAL FUND OPERATING EXPENDITURES PER CAPITA

The general fund is the primary operating fund of the City. It includes such categories as general government, public safety, highway & streets, and culture & recreation. Operating expenditures are used for analysis because capital expenditures can fluctuate tremendously and make trend analysis difficult. Operating expenditures are more stable. "Changes in per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the community's ability to pay."⁵

⁵ *Evaluating Financial Condition: a Handbook for Local Government*, page 45.

The formula for calculating operating expenditures per capita is to divide the operating expenditures by the population of Sioux Falls. Constant dollars (dollars adjusted for inflation) were used to facilitate comparison and identify trends.

Figure 4
Sioux Falls General Fund Operating Expenditures per Capita Adjusted for Constant Dollars (2005 base year)

2005	2006	2007	2008	2009
\$598	\$581	\$591	\$570	\$595

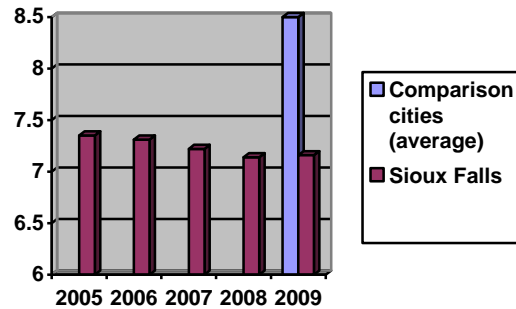
Conclusion: No warning trend observed; the five-year trend is steady.

CITY EMPLOYEES PER CAPITA

Calculating City employees per capita is one way of measuring municipal productivity. Personnel costs are the major part of the City's operating budget. "An increase in employees might indicate that expenditures are rising faster than revenues, that the government is becoming more labor intensive or that personnel productivity is declining."⁶ We calculated the number of municipal employees per capita (employees per 1,000 population) for Sioux Falls and 12 comparison cities (see appendix 2 for details on comparison cities). We took care to adjust figures for cities that have municipal employees in airport, transit and golf courses. The City of Sioux Falls does not have employees in the transit system, golf courses or airport.

⁶ *Evaluating Financial Condition: a Handbook for Local Government*, page 51.

Figure 5
City Employees per 1,000 Capita



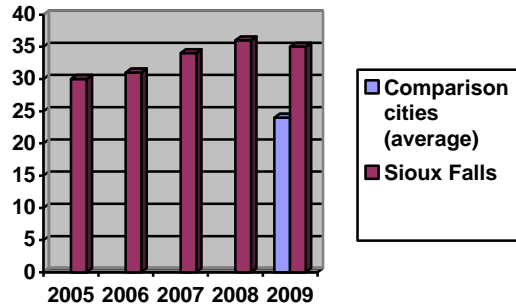
Conclusion: No warning trend observed; the five-year trend is steady. Sioux Falls is below the average of the comparison cities.

GENERAL FUND UNRESERVED FUND BALANCE

As mentioned on page seven of this report, the general fund is the primary operating fund of the City. Fund balance is the cumulative difference between fund assets and fund liabilities. Fund balance could also be called fund equity. Fund balance can be further divided into reserved and unreserved categories. Reserved fund balance is legally restricted and cannot be appropriated for other spending. The unreserved fund balance may be thought of as reserves or a “rainy day” fund. The larger the unreserved fund balance, the more a municipality is able to withstand financial emergencies. Unreserved fund balance is reported in the CAFR as of the fiscal year end (December 31st in the case of Sioux Falls). The City’s goal is to finish the year at 25 percent or greater.⁷

⁷ City Council Resolutions 15-07 and 73-09

Figure 6
General Fund Unreserved Fund Balance as a % of General Fund Expenditures



Conclusion: No warning trend observed; Sioux Falls is in a strong position with its general fund unreserved fund balance. The City exceeded its goal of 25%. We compare favorably to an average of the comparison cities.

LONG-TERM DEBT TO POPULATION

Increasing long-term debt per capita can be a warning trend. “However, Standard & Poor’s also recognizes that a low debt profile may not be a positive credit factor since it may indicate underinvestment in capital facilities.”⁸ Local governments that lag behind in funding infrastructure projects such as utilities and streets may have a low long-term debt to population ratio. The formula for calculating the long-term debt to population ratio is to divide the long-term debt as found in the CAFR by the population of the municipality.

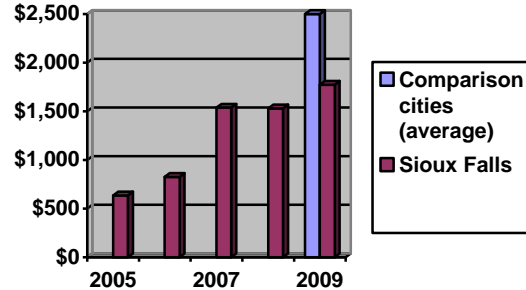
Standard & Poor’s Debt per Capita averages⁹

- Low: <\$1,000
- Moderate: \$1,000 - \$2,500
- High: >\$2,500

⁸ *Evaluating Financial Condition: a Handbook for Local Government*, page 79.

⁹ Standard & Poor’s is a United States based financial services company that issues credit ratings among other services.

Figure 7
Long-term Debt per Capita



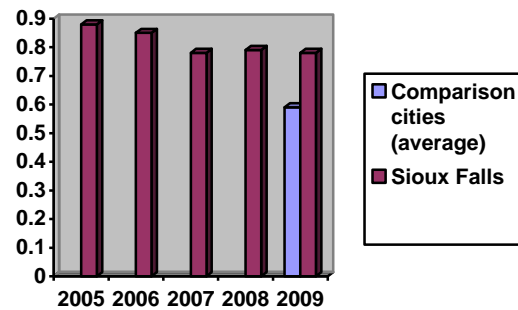
Conclusion: While the long-term debt to population ratio started increasing dramatically in 2007, it is still in the moderate category according to Standard & Poor's. Sioux Falls' debt ratio is lower than the average of the twelve comparison cities.

NET ASSET RATIO

The net asset ratio measures long-term financial strength. It measures the long-run solvency assessing the extent of a government to withstand financial emergencies during economic slowdowns, natural disasters and loss of major taxpayers.¹⁰ The net asset ratio is calculated by dividing the total net assets by the total assets. Generally speaking, the higher the net asset ratio, the better condition the municipality is in.

¹⁰ *Financial Management in the Public Sector*, XiaoHu Wang, 2006, page 151.

Figure 8
Net Asset Ratio



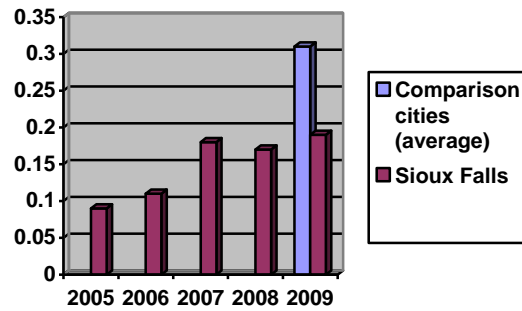
Conclusion: The Sioux Falls net asset ratio is better than the average of the comparison cities. The trend for Sioux Falls is steady; the last five years the ratio has been about 0.80. Based upon this indicator, Sioux Falls has good long-run solvency.

LONG-TERM DEBT RATIO

Like the net asset ratio, the long-term debt ratio is a measure of long-run solvency. It assesses an organization's ability to pay its long-term debt. A higher ratio of this financial indicator would mean a worse level of long-run solvency. "Some literature suggests that the debt ratio should not exceed a benchmark of 0.5."¹¹ The long-term debt ratio is calculated by dividing the total long-term debt by the total assets.

¹¹ Wang, page 89.

Figure 9
Long-Term Debt Ratio



Conclusion: No warning trend observed. Although the long-term ratio has increased, beginning in 2007, it is still low, especially when compared to the average of the comparison cities.

APPENDIX 1

OBJECTIVES

The objectives of this review included promoting discussion of the City's financial condition and identifying trends, whether favorable or unfavorable.

METHODOLOGY

We used methodology developed by the International City/County Management Association (ICMA) publication, *Evaluating Financial Condition: a Handbook for Local Government*, 2003 edition. We also used information from *Financial Management in the Public Sector: Tools, Applications, and Cases* by XiaoHu Wang, published 2006. For further ideas on report methodology and presentation we reviewed financial condition reports prepared by the internal audit staffs of the following local governments:

- Maricopa County, Arizona
- Portland, Oregon
- Lawrence, Kansas

For some financial indicators, we compared the City of Sioux Falls to 12 comparison or benchmark cities in the Upper Midwest (see appendix 2 for details).

SCOPE

For trend analysis, we looked at the CAFRs for Sioux Falls for the last five years, 2005 through 2009. The fiscal year for Sioux Falls ends on December 31, 2009. For the benchmark cities, we used the latest available CAFR. For most cities, this was their CAFR for the year ending June 30, 2009 or December 31, 2009.

PERFORMED BY

Rich Oksol, CPA, CGAP, Lead Internal Auditor

**RELIANCE UPON WORK OF
OTHER AUDITORS**

We did not intend that our review of financial and statistical data would give absolute assurance that all information was free from error. Professional diligence and care was used in compiling and analyzing information. The financial and statistical information we analyzed came from the Comprehensive Annual Financial Reports of Sioux Falls and the 12 benchmark cities. These CAFRs contain the financial statements presented by management and the audit opinions of Certified Public Accounting (CPA) firms hired by the various local governments to audit these financial statements. We relied upon the audit work performed by the external auditors. All CAFRs used in this report received unqualified (clean) opinions by external auditors. When an auditor gives a CAFR an unqualified opinion, it means that it is his or her opinion that the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. Statistical information in CAFRs is a representation of management and is not normally audited by the external auditors.

APPENDIX 2

CHARACTERISTICS OF THE COMMUNITIES USED FOR COMPARISON

The following communities were used
for comparison to Sioux Falls:

- Cedar Rapids, Iowa
- Des Moines, Iowa
- Duluth, Minnesota
- Eau Claire, Wisconsin
- Fargo, North Dakota
- Green Bay, Wisconsin
- La Crosse, Wisconsin
- Racine, Wisconsin
- Rochester, Minnesota
- Saint Cloud, Minnesota
- Sioux City, Iowa
- Topeka, Kansas

Population

Sioux Falls

156,500

Average of 12 comparison cities

99,140

Median age of population

Sioux Falls

35.1 years

Average of 12 comparison cities

36.3 years

Median household income

Sioux Falls

\$53,990

Average of 12 comparison cities

\$51,436

Median value owner-occupied housing

Sioux Falls

\$142,900

Average of 12 comparison cities

\$145,500

Percentage of population at poverty level

Sioux Falls

8%

Average of 12 comparison cities

11%

Geographic mobility¹²

Sioux Falls

83%

Average of 12 comparison cities

83%

Percentage of population (age 25 or older) with at least a high school degree

Sioux Falls

91%

Average of 12 comparison cities

91%

Housing built after 1990

Sioux Falls

32%

Average of 12 comparison cities

26%

Source of data: population is US Census estimated; other data is from the results of the American Community Survey 2006-2008 3-year estimates (<http://factfinder.census.gov>). Note: Population is the city itself, not the metropolitan statistical area.

¹² People at least one year or older who were living in same residence as a year earlier