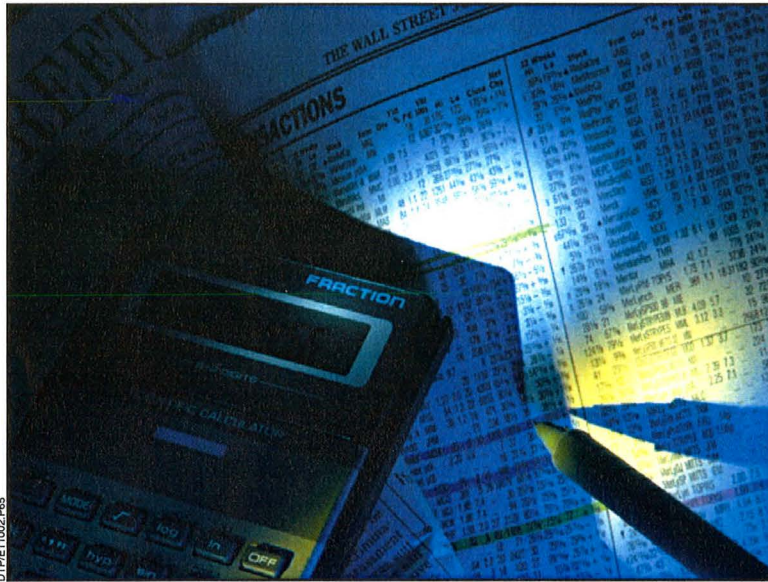


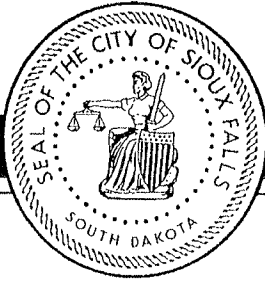
# City of Sioux Falls, South Dakota Employee's Retirement System



## 2002 Annual Financial Report

---

**For the Fiscal Year Ended December 31, 2002**  
**Prepared by the Accounting Division**



## CITY OF SIOUX FALLS

224 West Ninth Street, Sioux Falls, SD 57104-6407  
(605) 367-7039 Hearing Impaired  
(605) 367-7700 FAX  
Web Site: [www.sioux-falls.org](http://www.sioux-falls.org)

May 28, 2003

Board of Trustees  
City of Sioux Falls  
Employee's Retirement System

The annual financial report of the City of Sioux Falls Employee's Retirement System for the year ended December 31, 2002, is hereby submitted for review and approval. To the best of our knowledge, the information presented accurately defines the System's current financial position and the results from operations.

The fiscal staff has prepared this report for the Board of Trustees following the guidelines established by City Ordinance, Chapter 35. It is prepared in conjunction with the annual reconciliation of trust and financial statements conducted by the audit firm Eide Bailly LLP.

City Charter Section 2.10 provides for an independent audit to be performed annually on all City accounts, including the Employee's Retirement System. No audit comments or recommendations regarding the System for the year-ended December 31, 2002, were noted within this audit.

Sincerely,

Thomas J. Huber  
Accounting Manager  
City of Sioux Falls

Attachments

# City of Sioux Falls Employee's Retirement System

## Index

	<b>Page</b>
Letter of Transmittal	i
Index	ii
Definition of Funds	1
Flow Chart of Fund Transfers	2
Balance Sheet	3
Statement of Changes in Reserve Accounts	4
Statement of Changes in Reserve Accounts—General Division	5
Statement of Changes in Reserve Accounts—Police Division	6
Income and Expense Funds	7
Statement of Revenue and Expenses	8
Expense Fund Transfer Request	9
Comprehensive Annual Financial Report (GAAP) Statements	
Statement of Fiduciary Net Assets	10
Statement of Changes in Fiduciary Net Assets	11

# **City of Sioux Falls Employee's Retirement System**

## **Definition of Funds**

### **Annuity Savings Fund (Ordinance Section 35-43)**

The Annuity Savings Fund is the Fund which receives member (employee) contributions and interest. An account is maintained for each employee and is credited with regular interest of 5 percent per annum, compounded quarterly. Added to the beginning balance are interest and member contributions. Subtracted are refunds to separated members and transfers to the Retirement Reserve Fund for retired members.

### **Employer Reserve Fund (Ordinance Section 35-45)**

The Employer Reserve Fund is the Fund which receives the City's contributions. Contributions are made as a percentage of payroll as determined by the actuary and adopted by the Board during the annual actuarial valuation. Added to the beginning balance is the City's contribution and interest earned from the Income Fund. Subtracted from the balance are the transfers to the Expense Fund for plan expenses and transfers to the Retirement Reserve Fund for retirements as determined by the actuary. The interest is calculated based upon the mean balance and the assumed interest rate, currently 8 percent.

### **Retirement Reserve Fund (Ordinance Section 35-44)**

The Retirement Reserve Fund is the Fund from which is paid all annuities, pensions, and retirement allowances. Added to the beginning balance are transfers from the Annuity Savings Fund (employee contribution and interest) and Employer Reserve Fund (employer contributions and interest). Also added is interest from the Income Fund. The interest is calculated by the mean balance at the assumed rate of interest, currently 8 percent.

Upon retirement, a member's balance, including contribution and interest, is transferred from the Annuity Savings Fund to the Retirement Reserve Fund. Transferred from the Employer Reserve Fund to the Retirement Reserve Fund is an amount determined by the actuary to fund the member's lifetime benefit payments. Deducted from the Employer Reserve Fund are benefit payments.

### **Income Fund (Ordinance Section 35-52)**

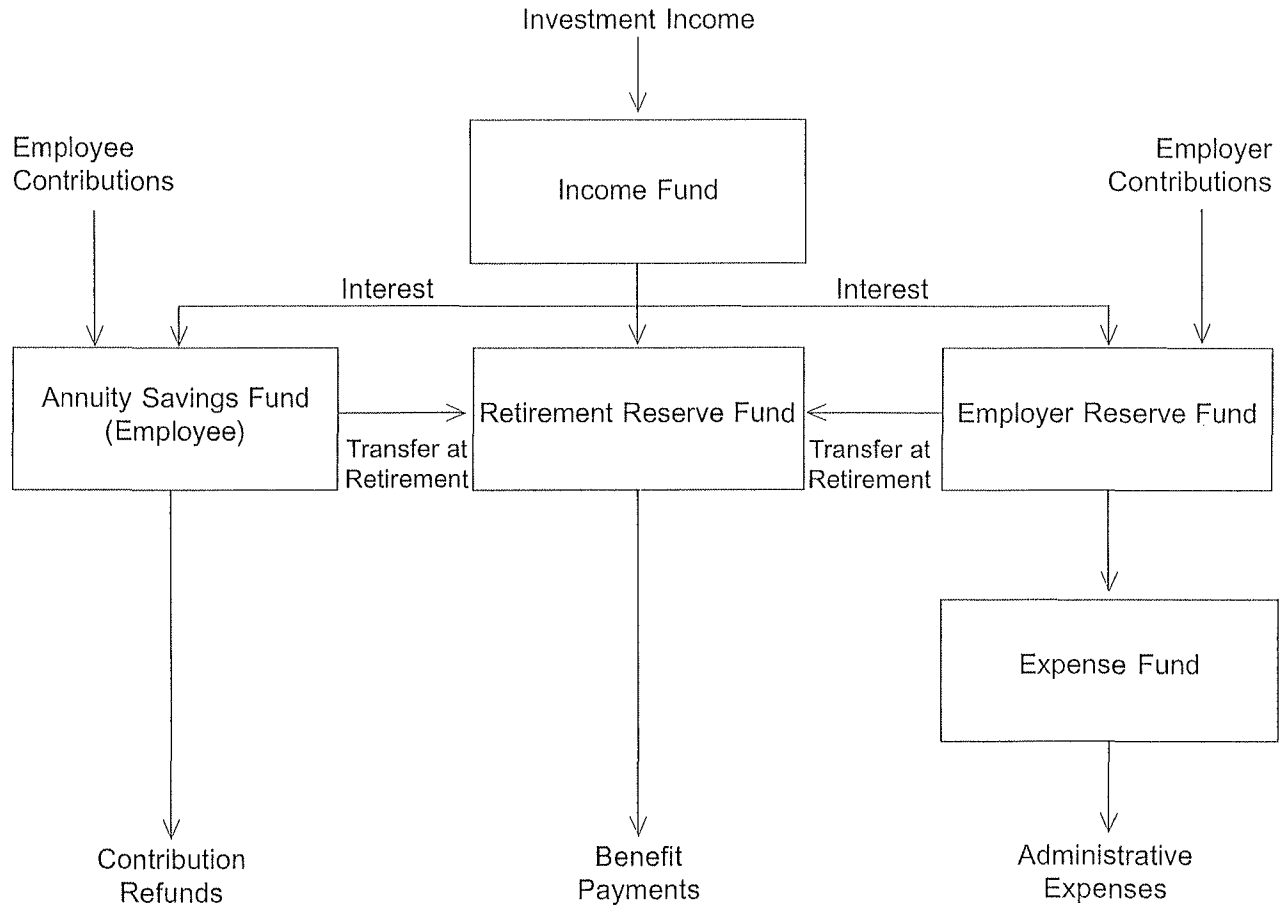
The Income Fund is credited with all revenues earned on investments held by the City and the System's funding agents including increases/decreases in unrealized market values. Subtracted from the Income Fund are transfers to the Annuity Savings, Employer Reserve, and Retirement Reserve Funds as well as funding agent and custodial fees.

### **Expense Fund (Ordinance Section 35-49)**

The Expense Fund is the Fund in which is placed all amounts authorized for expenditures by the Board. This amount is transferred from the Employer Reserve Fund at the time the annual report is adopted. Deducted from this balance are the expenses to administer the system.

# City of Sioux Falls Employee's Retirement System

## Flow Chart of Fund Transfers



**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**BALANCE SHEET**

**December 31, 2001 and 2002**

**ASSETS**

	<u>2001</u>	<u>2002</u>
Cash in bank	\$ 783,965	\$ 663,910
Cash in trust		
Accounts receivable	81,880	101,280
Accrued Interest and dividends	352,852	362,178
Investments held by funding agents (at market value):	<u>153,400,129</u>	<u>136,447,037</u>
Total Assets	<u>\$ 154,618,826</u>	<u>\$ 137,574,405</u>

**LIABILITIES AND EQUITY**

Accounts payable	\$ 66,907	\$ 60,337
Funded reserves:		
Annuity savings fund	21,268,824	22,909,464
Employer reserve fund	(11,571,129)	(11,048,692)
Retirement reserve fund	61,334,213	63,118,400
Income fund	83,497,007	62,508,453
Expense fund	<u>23,004</u>	<u>26,443</u>
Total Liabilities & Equity	<u>\$ 154,618,826</u>	<u>\$ 137,574,405</u>

**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**STATEMENT OF CHANGES IN RESERVE ACCOUNTS**

December 31, 2002

	<u>General Division</u>	<u>Police Division</u>	<u>Total</u>
<b><u>Annuity Savings Fund</u></b>			
Balance 1-1	\$ 14,953,154	\$ 6,315,670	\$ 21,268,824
Interest earned-individual accounts	759,339	315,209	1,074,548
Member contributions	757,246	684,908	1,442,154
Recovery of prior years refunds			
Contribution refunds	(86,624)	(95,726)	(182,350)
Transfer to retirement reserve fund	(383,088)	(310,624)	(693,712)
Balance 12-31	\$ <u>16,000,027</u>	\$ <u>6,909,437</u>	\$ <u>22,909,464</u>
<b><u>Employer Reserve Fund</u></b>			
Balance 1-1	\$ (2,501,707)	\$ (9,069,422)	\$ (11,571,129)
Interest earned-income fund			
Prior period adjustment			
City contributions	2,332,261	1,564,534	3,896,795
Transfers to:			
Expense fund	(52,760)	(35,392)	(88,152)
Retirement reserve fund	(1,503,363)	(1,782,843)	(3,286,206)
Balance 12-31	\$ <u>(1,725,569)</u>	\$ <u>(9,323,123)</u>	\$ <u>(11,048,692)</u>
<b><u>Retirement Reserve Fund</u></b>			
Balance 1-1	\$ 32,712,052	\$ 28,622,161	\$ 61,334,213
Transfers from:			
Employer reserve fund	1,503,363	1,782,843	3,286,206
Income fund-interest	2,518,422	2,268,217	4,786,639
Annuity savings fund	383,088	310,624	693,712
Pension payments	(4,128,468)	(2,472,443)	(6,600,911)
Group health insurance payment	(221,541)	(159,918)	(381,459)
Balance 12-31	\$ <u>32,766,916</u>	\$ <u>30,351,484</u>	\$ <u>63,118,400</u>

**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**STATEMENT OF CHANGES IN RESERVE ACCOUNTS  
GENERAL EMPLOYEE'S DIVISION**

December 31, 2001 and 2002

	2001	2002
<b><u>Annuity Savings Fund</u></b>		
Balance 1-1	\$ 14,410,443	\$ 14,953,154
Interest earned-individual accounts	714,662	759,339
Member contributions	722,688	757,246
Recovery of prior years refunds		
Contribution refunds	(155,847)	(86,624)
Transfer to retirement reserve fund	(738,792)	(383,088)
Balance 12-31	\$ 14,953,154	\$ 16,000,027
 <b><u>Employer Reserve Fund</u></b>		
Balance 1-1	\$ (1,153,558)	\$ (2,501,707)
Interest earned-income fund		
Prior period adjustment		
City contributions	2,276,674	2,332,261
Transfers to:		
Expense fund	0	(52,760)
Retirement reserve fund	(3,624,823)	(1,503,363)
Balance 12-31	\$ (2,501,707)	\$ (1,725,569)
 <b><u>Retirement Reserve Fund</u></b>		
Balance 1-1	\$ 29,991,229	\$ 32,712,052
Transfers from:		
Employer reserve fund	3,624,823	1,503,363
Income fund-interest	2,411,665	2,518,422
Annuity savings fund	738,792	383,088
Pension payments	(3,878,510)	(4,128,468)
Group health insurance payment	(175,947)	(221,541)
Balance 12-31	\$ 32,712,052	\$ 32,766,916



**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**STATEMENT OF CHANGES IN RESERVE ACCOUNTS  
POLICE DIVISION**

December 31, 2001 and 2002

	2001	2002
<b><u>Annuity Savings Fund</u></b>		
Balance 1-1	\$ 5,659,551	\$ 6,315,670
Interest earned-individual accounts	289,842	315,209
Member contributions	637,137	684,908
Recovery of prior years refunds		
Contribution refunds	(81,223)	(95,726)
Transfer to retirement reserve fund	(189,637)	(310,624)
Balance 12-31	\$ 6,315,670	\$ 6,909,437
 <b><u>Employer Reserve Fund</u></b>		
Balance 1-1	\$ (9,416,247)	\$ (9,069,422)
Interest earned-income fund		
Prior period adjustments		
City contributions	1,260,517	1,564,534
Transfers to:		
Expense fund	0	(35,392)
Retirement reserve fund	(913,692)	(1,782,843)
Balance 12-31	\$ (9,069,422)	\$ (9,323,123)
 <b><u>Retirement Reserve Fund</u></b>		
Balance 1-1	\$ 27,794,126	\$ 28,622,161
Transfers from:		
Employer reserve fund	913,692	1,782,843
Income fund-interest	2,169,857	2,268,217
Annuity savings fund	189,637	310,624
Pension payments	(2,311,901)	(2,472,443)
Group health insurance payment	(133,250)	(159,918)
Balance 12-31	\$ 28,622,161	\$ 30,351,484

**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**INCOME AND EXPENSE FUNDS**

December 31, 2001 and 2002

<u><b>Income Fund</b></u>	<u>2001</u>	<u>2002</u>
Balance 1-1	\$ 90,786,760	\$ 83,497,007
Revenue:		
Interest earned-City	58,307	44,088
Other income		
Investment earnings-funding agents	6,608,419	6,534,946
Increase (decrease) in unrealized market value	<u>(8,202,251)</u>	<u>(21,508,118)</u>
Total balance and revenue	<u>89,251,235</u>	<u>68,567,923</u>
Expenditures:		
Transfers to:		
Annuity savings fund-interest	1,004,504	1,074,547
Employer reserve fund-interest		
Retirement reserve fund-interest	4,581,522	4,786,639
Funding agent, trustee, & consultant fees	<u>168,202</u>	<u>198,284</u>
Total expenditures	<u>5,754,228</u>	<u>6,059,470</u>
Balance 12-31	<u>\$ 83,497,007</u>	<u>\$ 62,508,453</u>
 <u><b>Expense Fund</b></u>		
Balance 1-1	\$ 87,123	\$ 23,004
Revenue:		
Transfer from employer reserve fund	<u>0</u>	<u>88,152</u>
Funds available	<u>87,123</u>	<u>111,156</u>
Expenditures:		
Actuary fees	46,970	31,450
Administrative fees	12,008	47,315
Supplies & Materials	6	861
Travel and Education	532	2,950
Health Related Fees	4,515	1,350
Other expenses	<u>88</u>	<u>787</u>
Total expenditures	<u>64,119</u>	<u>84,713</u>
Balance 12-31	<u>\$ 23,004</u>	<u>\$ 26,443</u>

**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**STATEMENT OF REVENUES AND EXPENSES**

December 31, 2001 and 2002

	<b>2001</b>	<b>2002</b>
<b>Operating revenues:</b>		
Investment earnings:		
City	\$ 58,307	\$ 44,088
Funding agents	6,608,419	6,534,946
Member contributions	1,359,825	1,442,154
City contributions	3,537,191	3,896,795
Other revenue		
Total operating revenues	11,563,742	11,917,983
<b>Operating expenses:</b>		
Benefit payments	6,190,412	6,600,911
Group health insurance payments	309,197	381,458
Contribution refunds	237,070	182,350
Funding agent fees	92,952	117,884
Trustee fees	53,250	53,400
Actuary fees	46,970	31,450
Consultant fees	22,000	27,000
Other operating expenses	17,149	53,263
Total operating expenses	6,969,000	7,447,716
Operating income	4,594,742	4,470,267
<b>Nonoperating revenue:</b>		
Increase (decrease) in unrealized market value	(8,202,251)	(21,508,118)
Net income (loss)	(3,607,509)	(17,037,851)
<b>Fund balance 1-1</b>	158,159,428	154,551,919
<b>Fund balance 12-31</b>	\$ 154,551,919	\$ 137,514,068

**CITY OF SIOUX FALLS  
EMPLOYEE'S RETIREMENT SYSTEM**

**EXPENSE FUND TRANSFER**

**2003 Budget**

Balance 12-31-02		\$	26,443
2003 Approved Budget:			
Wages & Benefits	\$	52,155	
Professional Services:			
Actuarial	\$	38,500	
Administrative	\$	10,047	
Benefits Study	\$	35,000	
Office Supplies & Materials	\$	850	
Travel, Education & Training	\$	3,955	<u>\$ 140,507</u>
Expense Fund Deficit		<u>\$</u>	<u>114,064</u>
<b>Required Transfer</b>		<b>\$</b>	<b>114,064</b>

Motion to transfer funds from the Employer Reserve Fund to the Expense Fund

**CITY OF SIOUX FALLS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2002**

	EMPLOYEE'S RETIREMENT	FIREFIGHTERS' PENSION	TOTAL PENSION TRUST FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 808,843	\$ 684,417	\$ 1,493,260
Receivables:			
Accounts	101,279	25,359	126,638
Interest	362,178	117,410	479,588
Total receivables	463,457	142,769	606,226
Investments at fair value:			
Corporate Obligations	17,429,138	6,742,718	24,171,856
State & Local Obligations	2,903,271	1,028,583	3,931,854
US Government	1,225,971	412,017	1,637,988
Index Funds:			
Equity	38,485,076	9,663,099	48,148,175
Government / Corporate Bonds	14,093,272	5,596,684	19,689,956
Mutual Funds:			
Foreign Equity	26,231,084	10,753,718	36,984,802
Domestic Equity	28,772,141	17,206,313	45,978,454
Real Estate	7,162,151	2,892,958	10,055,109
Total investments	136,302,104	54,296,090	190,598,194
Total assets	137,574,404	55,123,276	192,697,680
<b>LIABILITIES</b>			
Accounts payable	58,900	26,100	85,000
Accrued wages	1,214	539	1,753
Accrued vacation	222	74	296
Total liabilities	60,336	26,713	87,049
<b>NET ASSETS</b>			
Held in trust for pension benefits	\$ 137,514,068	\$ 55,096,563	\$ 192,610,631

**CITY OF SIOUX FALLS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>EMPLOYEE'S RETIREMENT</u>	<u>FIREFIGHTERS' PENSION</u>	<u>TOTAL PENSION TRUST FUNDS</u>
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 3,896,795	\$ 837,636	\$ 4,734,431
Plan members	1,442,154	612,637	2,054,791
Total contributions	<u>5,338,949</u>	<u>1,450,273</u>	<u>6,789,222</u>
Investment income (loss)	(14,929,084)	(6,425,469)	(21,354,553)
Less investment expense	198,284	135,957	334,241
Net investment income (loss)	<u>(15,127,368)</u>	<u>(6,561,426)</u>	<u>(21,688,794)</u>
Total additions	<u>(9,788,419)</u>	<u>(5,111,153)</u>	<u>(14,899,572)</u>
<b>DEDUCTIONS</b>			
Benefit payments	6,982,370	2,611,389	9,593,759
Refunds	182,350	11,921	194,271
Administrative expense	84,713	43,801	128,514
Total deductions	<u>7,249,433</u>	<u>2,667,111</u>	<u>9,916,544</u>
Net increase (decrease)	(17,037,852)	(7,778,264)	(24,816,116)
<b>NET ASSETS-BEGINNING</b>	<u>154,551,920</u>	<u>62,874,827</u>	<u>217,426,747</u>
<b>NET ASSETS-ENDING</b>	<u>\$ 137,514,068</u>	<u>\$ 55,096,563</u>	<u>\$ 192,610,631</u>