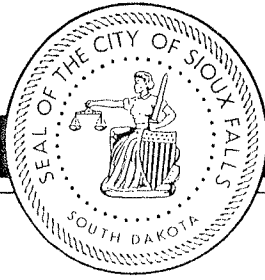


City of Sioux Falls, South Dakota Employee's Retirement System



2003 Annual Financial Report

For the Fiscal Year Ended December 31, 2003
Prepared by the Accounting Division



CITY OF SIOUX FALLS

FISCAL MANAGEMENT

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May 19, 2004

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, 2003, 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. Although the audit is not complete, no audit comments or recommendations regarding the System for the year-ended December 31, 2003, were brought to our attention during the fieldwork portion of the audit.

Sincerely,

Thomas J. Huber
Accounting Manager
City of Sioux Falls

Attachments

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

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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)

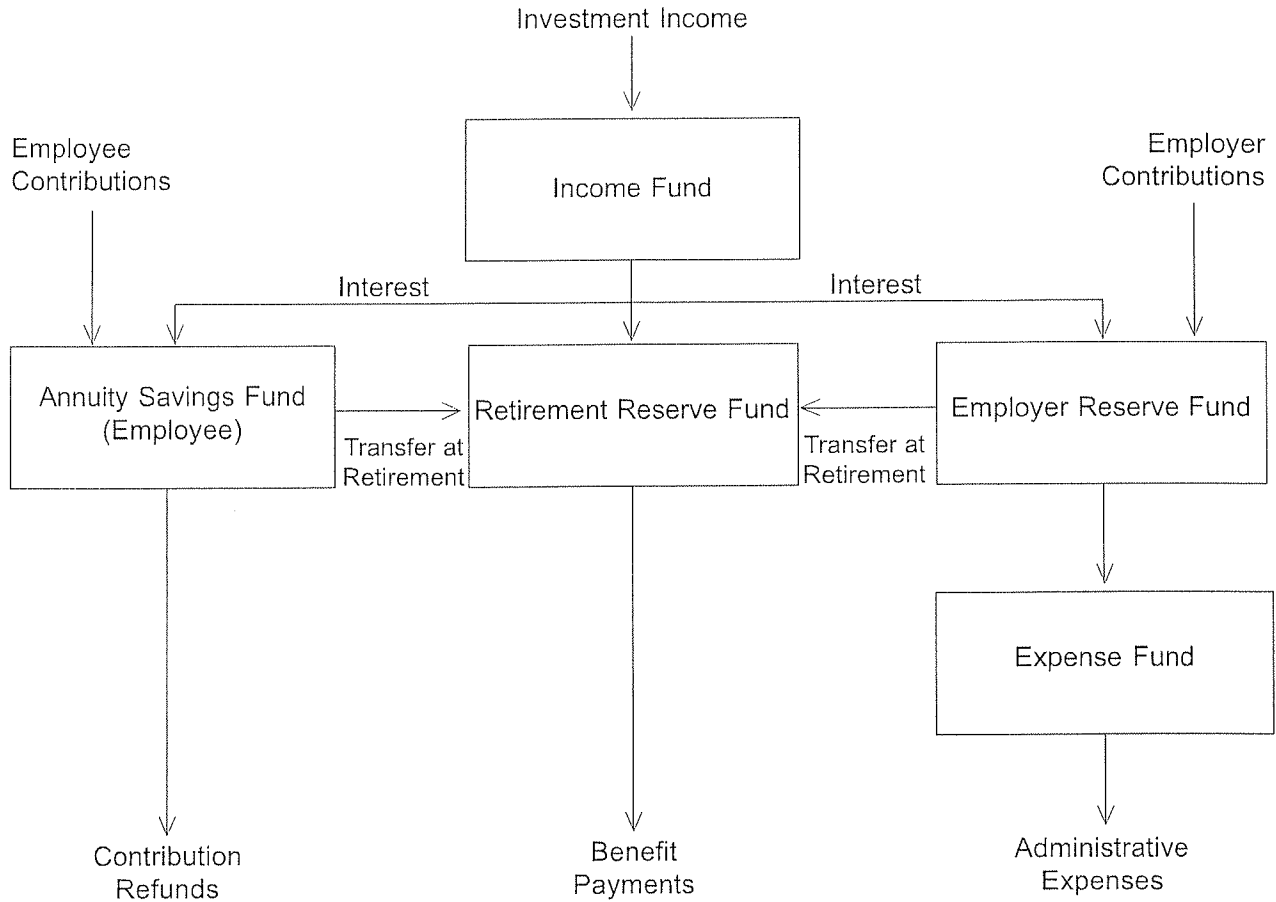
The Income Fund is credited with all revenues earned on investments held by the City and the System's funding agents including increases/decreases in unrealized market values. Subtracted from the Income Fund are transfers to the Annuity Savings, Employer Reserve, and Retirement Reserve Funds as well 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, 2002 and 2003

ASSETS

	<u>2002</u>	<u>2003</u>
Cash in bank	\$ 663,910	\$ 340,994
Cash in trust		
Accounts receivable	101,280	137,821
Accrued Interest and dividends	362,178	176,984
Investments held by funding agents (at market value):	<u>136,447,037</u>	<u>171,370,254</u>
Total Assets	\$ <u>137,574,405</u>	\$ <u>172,026,053</u>

LIABILITIES AND EQUITY

Accounts payable	\$ 60,337	\$ 58,173
Funded reserves:		
Annuity savings fund	22,909,464	24,302,982
Employer reserve fund	(11,048,692)	(12,387,917)
Retirement reserve fund	63,118,400	67,588,796
Income fund	62,508,453	92,397,543
Expense fund	<u>26,443</u>	<u>66,476</u>
Total Liabilities & Equity	\$ <u>137,574,405</u>	\$ <u>172,026,053</u>

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

STATEMENT OF CHANGES IN RESERVE ACCOUNTS

December 31, 2003

	<u>General Division</u>	<u>Police Division</u>	<u>Total</u>
<u>Annuity Savings Fund</u>			
Balance 1-1	\$ 16,000,027	\$ 6,909,437	\$ 22,909,464
Interest earned-individual accounts	799,838	343,297	1,143,135
Member contributions	809,311	784,628	1,593,939
Recovery of prior years refunds			
Contribution refunds	(107,359)	(25,146)	(132,505)
Transfer to retirement reserve fund	(817,614)	(393,437)	(1,211,051)
Balance 12-31	<u>\$ 16,684,203</u>	<u>\$ 7,618,779</u>	<u>\$ 24,302,982</u>
 <u>Employer Reserve Fund</u>			
Balance 1-1	\$ (1,725,569)	\$ (9,323,123)	\$ (11,048,692)
Interest earned-income fund			
Prior period adjustment			
City contributions	2,646,460	1,726,887	4,373,347
Transfers to:			
Expense fund	(69,024)	(45,040)	(114,064)
Retirement reserve fund	(3,580,965)	(2,017,543)	(5,598,508)
Balance 12-31	<u>\$ (2,729,098)</u>	<u>\$ (9,658,819)</u>	<u>\$ (12,387,917)</u>
 <u>Retirement Reserve Fund</u>			
Balance 1-1	\$ 32,766,916	\$ 30,351,484	\$ 63,118,400
Transfers from:			
Employer reserve fund	3,580,965	2,017,543	5,598,508
Income fund-interest	2,614,847	2,412,353	5,027,200
Annuity savings fund	817,614	393,437	1,211,051
Pension payments	(4,302,486)	(2,613,163)	(6,915,649)
Group health insurance payment	(258,755)	(191,959)	(450,714)
Balance 12-31	<u>\$ 35,219,101</u>	<u>\$ 32,369,695</u>	<u>\$ 67,588,796</u>

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

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

December 31, 2002 and 2003

	2002	2003
<u>Annuity Savings Fund</u>		
Balance 1-1	\$ 14,953,154	\$ 16,000,027
Interest earned-individual accounts	759,339	799,838
Member contributions	757,246	809,311
Recovery of prior years refunds		
Contribution refunds	(86,624)	(107,359)
Transfer to retirement reserve fund	(383,088)	(817,614)
Balance 12-31	\$ 16,000,027	\$ 16,684,203
 <u>Employer Reserve Fund</u>		
Balance 1-1	\$ (2,501,707)	\$ (1,725,569)
Interest earned-income fund		
Prior period adjustment		
City contributions	2,332,261	2,646,460
Transfers to:		
Expense fund	(52,760)	(69,024)
Retirement reserve fund	(1,503,363)	(3,580,965)
Balance 12-31	\$ (1,725,569)	\$ (2,729,098)
 <u>Retirement Reserve Fund</u>		
Balance 1-1	\$ 32,712,052	\$ 32,766,916
Transfers from:		
Employer reserve fund	1,503,363	3,580,965
Income fund-interest	2,518,422	2,614,847
Annuity savings fund	383,088	817,614
Pension payments	(4,128,468)	(4,302,486)
Group health insurance payment	(221,541)	(258,755)
Balance 12-31	\$ 32,766,916	\$ 35,219,101

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

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

December 31, 2002 and 2003

	2002	2003
<u>Annuity Savings Fund</u>		
Balance 1-1	\$ 6,315,670	\$ 6,909,437
Interest earned-individual accounts	315,209	343,297
Member contributions	684,908	784,628
Recovery of prior years refunds		
Contribution refunds	(95,726)	(25,146)
Transfer to retirement reserve fund	(310,624)	(393,437)
Balance 12-31	\$ 6,909,437	\$ 7,618,779
 <u>Employer Reserve Fund</u>		
Balance 1-1	\$ (9,069,422)	\$ (9,323,123)
Interest earned-income fund		
Prior period adjustments		
City contributions	1,564,534	1,726,887
Transfers to:		
Expense fund	(35,392)	(45,040)
Retirement reserve fund	(1,782,843)	(2,017,543)
Balance 12-31	\$ (9,323,123)	\$ (9,658,819)
 <u>Retirement Reserve Fund</u>		
Balance 1-1	\$ 28,622,161	\$ 30,351,484
Transfers from:		
Employer reserve fund	1,782,843	2,017,543
Income fund-interest	2,268,217	2,412,353
Annuity savings fund	310,624	393,437
Pension payments	(2,472,443)	(2,613,163)
Group health insurance payment	(159,918)	(191,959)
Balance 12-31	\$ 30,351,484	\$ 32,369,695

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

INCOME AND EXPENSE FUNDS

December 31, 2002 and 2003

<u>Income Fund</u>	<u>2002</u>	<u>2003</u>
Balance 1-1	\$ 83,497,007	\$ 62,508,453
Revenue:		
Interest earned-City	44,088	(498)
Other income		
Investment earnings-funding agents	6,534,946	1,065,485
Increase (decrease) in unrealized market value	<u>(21,508,118)</u>	<u>35,173,197</u>
Total balance and revenue	<u>68,567,923</u>	<u>98,746,637</u>
Expenditures:		
Transfers to:		
Annuity savings fund-interest	1,074,547	1,143,135
Employer reserve fund-interest		
Retirement reserve fund-interest	4,786,639	5,027,200
Funding agent, trustee, & consultant fees	<u>198,284</u>	<u>178,759</u>
Total expenditures	<u>6,059,470</u>	<u>6,349,094</u>
Balance 12-31	<u>\$ 62,508,453</u>	<u>\$ 92,397,543</u>
 <u>Expense Fund</u>		
Balance 1-1	\$ 23,004	\$ 26,443
Revenue:		
Transfer from employer reserve fund	<u>88,152</u>	<u>114,064</u>
Funds available	<u>111,156</u>	<u>140,507</u>
Expenditures:		
Actuary fees	31,450	17,127
Wages & benefits	47,315	50,424
Supplies & materials	861	91
Travel and education	2,950	612
Disability exams	1,350	3,960
Other expenses	<u>787</u>	<u>1,817</u>
Total expenditures	<u>84,713</u>	<u>74,031</u>
Balance 12-31	<u>\$ 26,443</u>	<u>\$ 66,476</u>

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

STATEMENT OF REVENUES AND EXPENSES

December 31, 2002 and 2003

	2002	2003
Operating revenues:		
Investment earnings:		
City	\$ 44,088	\$ (498)
Funding agents	6,534,946	1,065,485
Member contributions	1,442,154	1,593,939
City contributions	3,896,795	4,373,347
Other revenue		
Total operating revenues	11,917,983	7,032,273
Operating expenses:		
Benefit payments	6,600,911	6,915,649
Group health insurance payments	381,458	450,713
Contribution refunds	182,350	132,505
Funding agent fees	117,884	97,760
Trustee fees	53,400	54,000
Actuary fees	31,450	17,127
Consultant fees	27,000	27,000
Other operating expenses	53,263	56,904
Total operating expenses	7,447,716	7,751,658
Operating income	4,470,267	(719,385)
Nonoperating revenue:		
Increase (decrease) in unrealized market value	(21,508,118)	35,173,197
Net income (loss)	(17,037,851)	34,453,812
Fund balance 1-1	154,551,919	137,514,068
Fund balance 12-31	\$ 137,514,068	\$ 171,967,880

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

EXPENSE FUND TRANSFER

2004 Budget

Balance 12-31-03		\$ 66,476
2004 Approved Budget:		
Actuarial	\$ 28,500	
Audit/Legal	\$ 8,850	
Wages and Benefits	\$ 53,158	
Disability Exams	\$ 10,000	
Supplies & Materials	\$ 850	
Travel and Education	\$ 3,955	
Other Expenses	\$ 197	
		<u>\$ 105,510</u>
Expense Fund Deficit		<u><u>\$ 39,034</u></u>
Required Transfer		\$ 39,034

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

Combining Statement of Changes in Net Assets - Fiduciary Funds

	Employee's Retirement	Firefighters' Pension	Total Pension Trust Funds
Additions			
Contributions			
Employer	\$ 4,373,347	\$ 964,605	\$ 5,337,952
Plan Members	1,593,939	694,919	2,288,858
Total Contributions	5,967,286	1,659,524	7,626,810
Investment Income (Loss)	36,238,184	14,505,737	50,743,921
Less Investment Expense	178,759	190,420	369,179
Net Investment Income (Loss)	36,059,425	14,315,317	50,374,742
Total Additions	42,026,711	15,974,841	58,001,552
Deductions			
Benefit Payments	7,366,362	2,823,341	10,189,703
Refunds	132,505	12,667	145,172
Administrative Expense	74,032	34,348	108,380
Total Deductions	7,572,899	2,870,356	10,443,255
Net Increase (Decrease)	34,453,812	13,104,485	47,558,297
Net Assets - Beginning	137,514,068	55,096,563	192,610,631
Net Assets - Ending	\$ 171,967,880	\$ 68,201,048	\$ 240,168,928

*Money Manager -
 Custodian Bank
 Inv. Control*

*incl. health premiums
 - Actuary
 City*

City of Sioux Falls
 Comprehensive Annual Financial Report
 December 31, 2003

Combining Statement of Net Assets - Fiduciary Funds

	<u>Employee's Retirement</u>	<u>Firefighters' Pension</u>	<u>Total Pension Trust Funds</u>
Assets			
Cash and Cash Equivalents	\$ 429,078	\$ 222,145	\$ 651,223
Receivables:			
Accounts	137,821	40,272	178,093
Interest	176,984	65,438	242,422
Total Receivables	<u>314,805</u>	<u>105,710</u>	<u>420,515</u>
Investments at Fair Value:			
Corporate Obligations	3,092,763	988,342	4,081,105
State & Local Obligations	2,330,595	964,682	3,295,277
US Government	18,409,087	7,373,877	25,782,964
Index Funds:			
Equity	49,550,926	12,514,235	62,065,161
Government / Corporate Bonds	14,767,606	5,864,451	20,632,057
Mutual Funds:			
Foreign Equity	36,493,005	14,963,758	51,456,763
Domestic Equity	37,783,551	21,813,137	59,596,688
Real Estate	8,854,637	3,413,579	12,268,216
Total Investments	<u>171,282,170</u>	<u>67,896,061</u>	<u>239,178,231</u>
Total Assets	<u>172,026,053</u>	<u>68,223,916</u>	<u>240,249,969</u>
Liabilities			
Accounts Payable	54,000	21,000	75,000
Accrued Wages	635	294	929
Accrued Vacation	3,538	1,574	5,112
Total Liabilities	<u>58,173</u>	<u>22,868</u>	<u>81,041</u>
Net Assets			
Held in Trust for Pension Benefits	<u>\$ 171,967,880</u>	<u>\$ 68,201,048</u>	<u>\$ 240,168,928</u>

Net Asset Format