

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



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20 10 Annual
Financial Report

For the Fiscal Year Ended December 31, 2010
Prepared by the Accounting Division



May 4, 2011

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, 2010, is hereby submitted. To the best of our knowledge, the information presented accurately defines the Fund's current financial position and the results from operations.

The separately stated financials for the Fund have been prepared according to the guidelines established by City Ordinance, Chapter 35. We have also included a copy the annual financial statements contained within the City's Comprehensive Annual Financial Report as an appendix to this report. These statements have been prepared on a basis consistent with Generally Accepted Accounting Principles (GAAP).

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 conditions, comments or recommendations regarding the Fund for the year-ended December 31, 2010, were brought to our attention within the audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Tracy D. Turbak".

Tracy D. Turbak, CPA
Director of Finance
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 Retirement 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.

Revenue remaining in the Fund after the allocation of interest to the Annuity Savings and Retirement Reserve Funds is transferred to the Employer Reserve Fund leaving a zero balance in the Income Fund per Board directive on May 19, 2004.

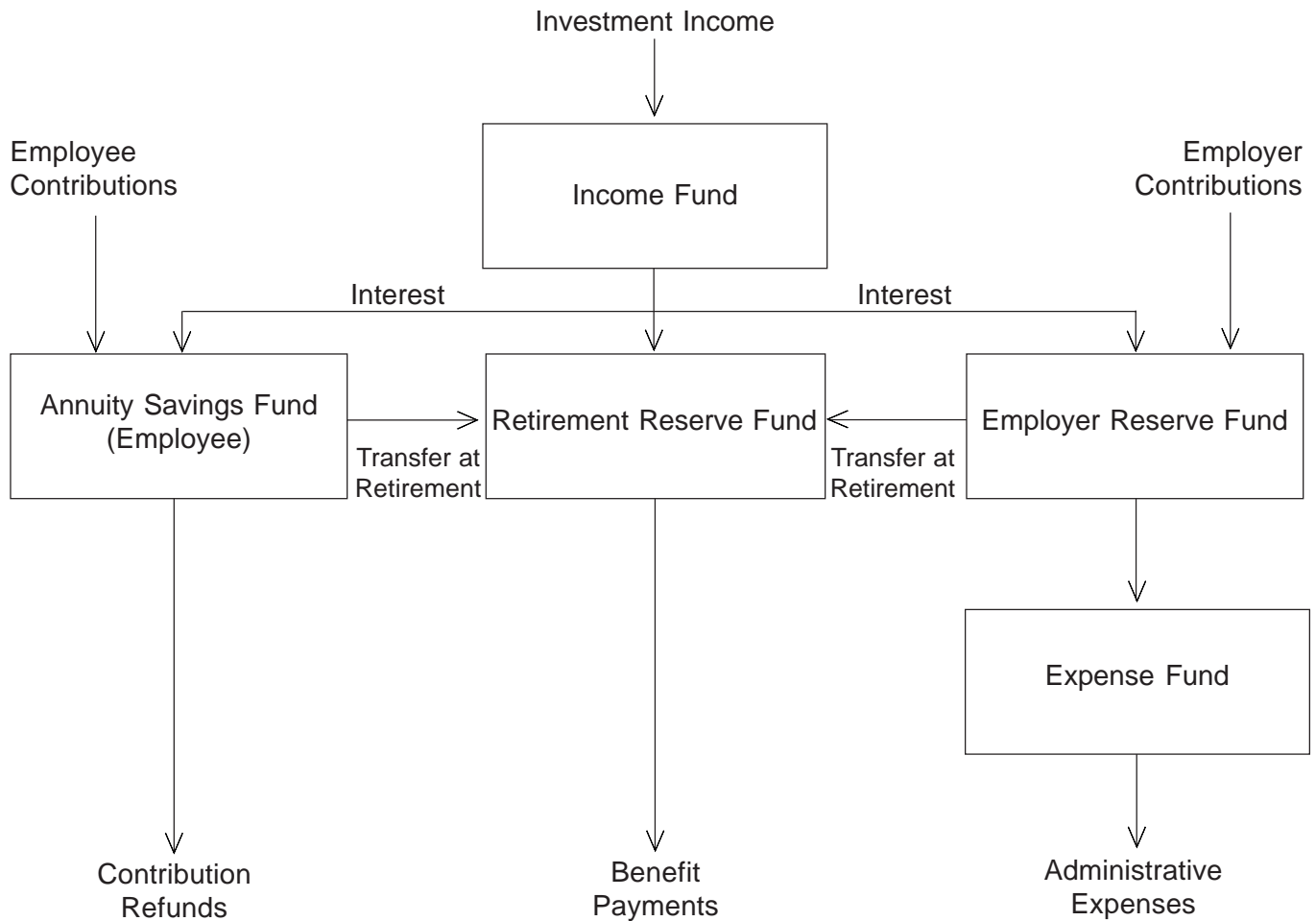
Expense Fund (Ordinance Section 35-49)

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 each year as authorized by the Board on May 19, 2004. Deducted from this balance are the expenses to administer the system.

IRC 401(h) Fund

The IRC 401(h) Fund is established in accordance with Internal Revenue Code 401(h) to hold employer contributions for retiree health benefits. The Fund pays one-half the premium for retiree health to the City's self-funded Health Life Benefit Fund.

**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, 2009 and 2010

ASSETS

| | 2009 | 2010 |
|--|-----------------------|-----------------------|
| Cash in bank | \$ 1,129,751 | \$ 1,032,943 |
| Prepaid expenses | - | - |
| Accounts receivable | 63,346 | 153,696 |
| Accrued Interest and dividends | 666,404 | 610,510 |
| Investments held by funding agents (at market value): | <u>230,762,369</u> | <u>263,048,839</u> |
| Total Assets | \$ 232,621,870 | \$ 264,845,988 |

LIABILITIES AND EQUITY

| | | |
|---------------------------------------|-----------------------|-----------------------|
| Accounts payable | \$ - | \$ - |
| Funded reserves: | | |
| Annuity savings fund | 35,044,145 | 36,396,529 |
| Employer reserve fund | 100,837,722 | 106,571,312 |
| Retirement reserve fund | 96,543,110 | 105,821,745 |
| IRC 401(h) fund | | 15,863,893 |
| Income fund | - | - |
| Expense fund | <u>196,893</u> | <u>192,509</u> |
| Total Liabilities & Equity | \$ 232,621,870 | \$ 264,845,988 |

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

STATEMENT OF CHANGES IN RESERVE ACCOUNTS

December 31, 2010

| | <u>General Division</u> | <u>Police Division</u> | <u>Total</u> |
|---------------------------------------|-------------------------|------------------------|-----------------------|
| <u>Annuity Savings Fund</u> | | | |
| Balance 1-1 | \$ 21,050,101 | 13,994,044 | \$ 35,044,145 |
| Interest earned-individual accounts | 1,046,729 | 670,493 | 1,717,222 |
| Member contributions | 1,120,545 | 1,120,668 | 2,241,213 |
| Contribution refunds | (112,922) | (84,692) | (197,614) |
| Transfer to retirement reserve fund | (1,280,331) | (1,128,106) | (2,408,437) |
| Balance 12-31 | <u>\$ 21,824,122</u> | <u>\$ 14,572,407</u> | <u>\$ 36,396,529</u> |
| <u>Employer Reserve Fund</u> | | | |
| Balance 1-1 | \$ 60,390,268 | 28,583,740 | \$ 88,974,008 |
| Unallocated interest | 14,678,058 | 6,939,111 | 21,617,169 |
| City contributions pension | 4,111,498 | 2,479,757 | 6,591,255 |
| Transfers to: | | | |
| Expense fund | (94,742) | (44,789) | (139,531) |
| Retirement reserve fund | (5,944,988) | (4,526,601) | (10,471,589) |
| Balance 12-31 | <u>\$ 73,140,094</u> | <u>\$ 33,431,218</u> | <u>\$ 106,571,312</u> |
| <u>Retirement Reserve Fund</u> | | | |
| Balance 1-1 | \$ 54,276,264 | 42,266,846 | \$ 96,543,110 |
| Transfers from: | | | |
| Employer reserve fund | 5,944,988 | 4,526,601 | 10,471,589 |
| Income fund-interest | 4,208,341 | 3,340,769 | 7,549,110 |
| Annuity savings fund | 1,280,331 | 1,128,106 | 2,408,437 |
| Pension payments | (7,175,503) | (3,974,998) | (11,150,501) |
| Balance 12-31 | <u>\$ 58,534,421</u> | <u>\$ 47,287,324</u> | <u>\$ 105,821,745</u> |
| <u>IRC 401(h) Fund</u> | | | |
| Balance 1-1 | \$ 8,055,463 | 3,808,252 | \$ 11,863,715 |
| Unallocated interest | 1,243,977 | 588,095 | 1,832,072 |
| City contributions: | 1,904,036 | 1,058,765 | 2,962,801 |
| Transfers to: | | | |
| Expense fund | (5,796) | (2,741) | (8,537) |
| Group health insurance payment | (481,373) | (304,785) | (786,158) |
| Balance 12-31 | <u>\$ 10,716,307</u> | <u>\$ 5,147,586</u> | <u>\$ 15,863,893</u> |

**CITY OF SIOUX FALLS
EMPLOYEE'S RETIREMENT SYSTEM
STATEMENT OF CHANGES IN RESERVE ACCOUNTS
GENERAL EMPLOYEE'S DIVISION**

December 31, 2009 and 2010

| | <u>2009</u> | <u>2010</u> |
|--|----------------------|----------------------|
| <u>Annuity Savings Fund</u> | | |
| Balance 1-1 | \$ 19,704,665 | \$ 21,050,101 |
| Interest earned-individual accounts | 1,005,504 | 1,046,729 |
| Member contributions | 1,127,964 | 1,120,545 |
| Contribution refunds | (54,747) | (112,922) |
| Transfer to retirement reserve fund | (733,285) | (1,280,331) |
| Balance 12-31 | \$ <u>21,050,101</u> | \$ <u>21,824,122</u> |
| <u>Employer Reserve Fund</u> | | |
| Balance 1-1 | \$ 40,835,152 | \$ 60,390,268 |
| Unallocated interest | 25,631,845 | 14,678,058 |
| City contributions pension (no split in 2009): | 5,362,917 | 4,111,498 |
| Transfers to: | | |
| Expense fund | (104,771) | (94,742) |
| Retirement reserve fund | (3,279,413) | (5,944,988) |
| Balance 12-31 | \$ <u>68,445,730</u> | \$ <u>73,140,094</u> |
| <u>Retirement Reserve Fund</u> | | |
| Balance 1-1 | \$ 53,517,644 | \$ 54,276,264 |
| Transfers from: | | |
| Employer reserve fund | 3,279,413 | 5,944,988 |
| Income fund-interest | 4,021,193 | 4,208,341 |
| Annuity savings fund | 733,285 | 1,280,331 |
| Pension payments | (6,809,662) | (7,175,503) |
| Group health insurance payment | (465,609) | - |
| Balance 12-31 | \$ <u>54,276,264</u> | \$ <u>58,534,421</u> |
| <u>IRC 401(h) Fund</u> | | |
| Balance 1-1 | \$ - | \$ 8,055,463 |
| Unallocated Interest | - | 1,243,977 |
| City Contribution health | - | 1,904,036 |
| Transfer to: | | |
| Expense Fund | - | (5,796) |
| Group health insurance payment | - | (481,373) |
| Balance 12-31 | \$ <u>-</u> | \$ <u>10,716,307</u> |

**CITY OF SIOUX FALLS
EMPLOYEE'S RETIREMENT SYSTEM
STATEMENT OF CHANGES IN RESERVE ACCOUNTS
POLICE DIVISION**

December 31, 2009 and 2010

| | <u>2009</u> | <u>2010</u> |
|--|----------------------|----------------------|
| <u>Annuity Savings Fund</u> | | |
| Balance 1-1 | \$ 12,382,608 | \$ 13,994,044 |
| Interest earned-individual accounts | 643,269 | 670,493 |
| Member contributions | 1,144,206 | 1,120,668 |
| Contribution refunds | (36,029) | (84,692) |
| Transfer to retirement reserve fund | (140,010) | (1,128,106) |
| Balance 12-31 | <u>\$ 13,994,044</u> | <u>\$ 14,572,407</u> |
| <u>Employer Reserve Fund</u> | | |
| Balance 1-1 | \$ 18,424,364 | \$ 28,583,740 |
| Unallocated interest | 11,564,801 | 6,939,111 |
| City contributions pension (no split in 2009): | 3,071,000 | 2,479,757 |
| Transfers to: | | |
| Expense fund | (47,272) | (44,789) |
| Retirement reserve fund | (620,901) | (4,526,601) |
| Balance 12-31 | <u>\$ 32,391,992</u> | <u>\$ 33,431,218</u> |
| <u>Retirement Reserve Fund</u> | | |
| Balance 1-1 | \$ 42,261,517 | \$ 42,266,846 |
| Transfers from: | | |
| Employer reserve fund | 620,901 | 4,526,601 |
| Income fund-interest | 3,153,284 | 3,340,769 |
| Annuity savings fund | 140,010 | 1,128,106 |
| Pension payments | (3,661,997) | (3,974,998) |
| Group health insurance payment | (246,869) | - |
| Balance 12-31 | <u>\$ 42,266,846</u> | <u>\$ 47,287,324</u> |
| <u>IRC 401(h) Fund</u> | | |
| Balance 1-1 | \$ - | \$ 3,808,252 |
| Unallocated Interest | - | 588,095 |
| City Contributions | - | 1,058,765 |
| Transfers to: | | |
| Expense fund | - | (2,741) |
| Group health insurance payment | - | (304,785) |
| Balance 12-31 | <u>\$ -</u> | <u>\$ 5,147,586</u> |

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

INCOME AND EXPENSE FUNDS

December 31, 2009 and 2010

| <u>Income Fund</u> | <u>2009</u> | <u>2010</u> |
|--|--------------------|--------------------|
| Balance 1-1 | \$ - | \$ - |
| Revenue: | | |
| Interest earned-City | 23,204 | 12,561 |
| Other income | 34,107 | 11,412 |
| Investment earnings-funding agents | 5,263,483 | 10,272,600 |
| Increase (decrease) in unrealized market value | 41,133,096 | 23,001,460 |
| Total balance and revenue | <u>46,453,890</u> | <u>33,298,033</u> |
| Expenditures: | | |
| Transfers to: | | |
| Annuity savings fund-interest | 1,648,773 | 1,717,222 |
| Employer reserve fund-interest | 37,196,646 | 21,617,170 |
| Retirement reserve fund-interest | 7,174,477 | 7,549,110 |
| IRC 401(h) fund-interest | - | 1,832,072 |
| Funding agent, trustee, & consultant fees | 433,994 | 582,459 |
| Total expenditures | <u>46,453,890</u> | <u>33,298,033</u> |
| Balance 12-31 | <u>\$ -</u> | <u>\$ -</u> |
| <u>Expense Fund</u> | | |
| Balance 1-1 | \$ 190,590 | \$ 196,893 |
| Revenue: | | |
| Transfer from employer reserve fund | 152,043 | 139,531 |
| Transfer from IRC 401(h) fund | - | 8,537 |
| Funds available | <u>342,633</u> | <u>344,961</u> |
| Expenditures: | | |
| Actuary fees | 34,476 | 35,094 |
| Audit fees | 1,450 | 1,522 |
| Wages & benefits | 106,715 | 113,252 |
| Supplies & materials | 374 | 44 |
| Travel and education | 263 | 75 |
| Disability exams | 600 | 900 |
| Other expenses | 1,862 | 1,565 |
| Total expenditures | <u>145,740</u> | <u>152,452</u> |
| Balance 12-31 | <u>\$ 196,893</u> | <u>\$ 192,509</u> |

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

STATEMENT OF REVENUES AND EXPENSES

December 31, 2009 and 2010

| | <u>2009</u> | <u>2010</u> |
|--|-----------------------|-----------------------|
| Operating revenues: | | |
| Investment earnings: | | |
| City | \$ 23,204 | \$ 12,561 |
| Funding agents | 5,263,484 | 10,272,600 |
| Member contributions | 2,272,170 | 2,241,213 |
| City contributions: | | |
| Pension | 5,459,718 | 6,591,255 |
| Health | 2,974,199 | 2,962,801 |
| Other revenue | 34,107 | 11,412 |
| Total operating revenues | <u>16,026,882</u> | <u>22,091,842</u> |
| Operating expenses: | | |
| Benefit payments | 10,471,659 | 11,150,501 |
| Group health insurance payments | 712,478 | 786,158 |
| Contribution refunds | 90,776 | 197,614 |
| Funding agent fees | 374,875 | 517,041 |
| Trustee fees | 29,119 | 35,418 |
| Consultant fees | 30,000 | 30,000 |
| Actuary fees | 34,476 | 35,094 |
| Audit fees | 1,450 | 1,522 |
| Other operating expenses | 109,814 | 115,836 |
| Total operating expenses | <u>11,854,647</u> | <u>12,869,184</u> |
| Operating income | 4,172,235 | 9,222,658 |
| Nonoperating revenue: | | |
| Increase (decrease) in unrealized market value | <u>41,133,096</u> | <u>23,001,460</u> |
| Net income (loss) | 45,305,331 | 32,224,118 |
| Fund balance 1-1 | <u>187,316,539</u> | <u>232,621,870</u> |
| Fund balance 12-31 | <u>\$ 232,621,870</u> | <u>\$ 264,845,988</u> |

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

EXPENSE FUND BALANCE

2011 Budget

| | |
|------------------------------------|-------------------|
| 2011 Approved Expense Fund Budget: | |
| Wages & Benefits | \$ 116,830 |
| Insurance | 624 |
| Actuarial Services | 48,300 |
| Legal & Audit Services | 16,600 |
| Health Services (Disability Exams) | 8,000 |
| Supplies & Materials | 950 |
| Travel and Education | 1,205 |
| Other Expenses | - |
| Total | <u>\$ 192,509</u> |

Notes to Financial Statements - Fiduciary Funds Statement of Net Assets

| | <u>Employees' Retirement</u> | | <u>Firefighters' Pension</u> | | <u>Total Pension and Health Care Trust Funds</u> |
|--|------------------------------|----------------------|------------------------------|---------------------|--|
| | <u>Pension</u> | <u>Health Care</u> | <u>Pension</u> | <u>Health Care</u> | |
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 2,611,981 | \$ 166,422 | \$ 814,870 | \$ 41,859 | \$ 3,635,132 |
| Receivables: | | | | | |
| Accounts | 144,490 | 9,206 | 51,776 | 2,660 | 208,132 |
| Interest | 573,941 | 36,569 | 203,833 | 10,471 | 824,814 |
| Total Receivables | <u>718,431</u> | <u>45,775</u> | <u>255,609</u> | <u>13,131</u> | <u>1,032,946</u> |
| Investments at Fair Value: | | | | | |
| US Government | 1,382,419 | 88,081 | 273,832 | 14,067 | 1,758,399 |
| Corporate Obligations | 24,799,591 | 1,580,106 | 9,895,722 | 508,339 | 36,783,758 |
| Foreign Obligations | 10,472,191 | 667,236 | 2,791,613 | 143,404 | 14,074,444 |
| State and Local Obligations | 2,190,778 | 139,585 | 827,426 | 42,504 | 3,200,293 |
| Domestic Stocks | 49,853,126 | 3,176,392 | 18,651,908 | 958,140 | 72,639,566 |
| Foreign Stocks | 5,952,831 | 379,285 | 2,225,108 | 114,303 | 8,671,527 |
| Index Funds: | | | | | |
| Equity | 51,164,450 | 3,259,943 | 19,392,722 | 996,195 | 74,813,310 |
| Government / Corporate Bonds | 19,194,921 | 1,223,004 | 7,406,683 | 380,478 | 28,205,086 |
| Mutual Funds: | | | | | |
| Foreign Equity | 42,302,876 | 2,695,327 | 15,387,962 | 790,473 | 61,176,638 |
| Domestic Equity | 26,390,377 | 1,681,463 | 10,103,593 | 519,017 | 38,694,450 |
| Real Estate | 11,948,122 | 761,275 | 4,368,694 | 224,418 | 17,302,509 |
| Total Investments | <u>245,651,683</u> | <u>15,651,696</u> | <u>91,325,263</u> | <u>4,691,338</u> | <u>357,319,980</u> |
| Total Assets | <u>248,982,095</u> | <u>15,863,893</u> | <u>92,395,742</u> | <u>4,746,328</u> | <u>361,988,058</u> |
| Liabilities | | | | | |
| Total Liabilities | - | - | - | - | - |
| Net Assets | | | | | |
| Held in Trust for Pension and Post Employment Health Care Benefits | <u>\$ 248,982,095</u> | <u>\$ 15,863,893</u> | <u>\$ 92,395,742</u> | <u>\$ 4,746,328</u> | <u>\$ 361,988,058</u> |

City of Sioux Falls
 Comprehensive Annual Financial Report
 Year Ended December 31, 2010

Notes to Financial Statements - Fiduciary Funds Changes in Net Assets

| | <u>Employees' Retirement</u> | | <u>Firefighters' Pension</u> | | <u>Total Pension and Health Care Trust Funds</u> |
|--------------------------------------|------------------------------|------------------------|------------------------------|------------------------|--|
| | <u>Pension</u> | <u>Health Care</u> | <u>Pension</u> | <u>Health Care</u> | |
| Additions | | | | | |
| Contributions | | | | | |
| Employer | \$ 6,591,255 | \$ 2,962,801 | \$ 2,233,372 | \$ 937,698 | \$ 12,725,126 |
| Plan Members | 2,241,213 | - | 887,101 | - | 3,128,314 |
| Total Contributions | <u>8,832,468</u> | <u>2,962,801</u> | <u>3,120,473</u> | <u>937,698</u> | <u>15,853,440</u> |
| Investment Income (Loss) | 31,433,343 | 1,864,690 | 11,923,114 | 561,822 | 45,782,969 |
| Less Investment Expense | 549,841 | 32,618 | 218,763 | 10,308 | 811,530 |
| Net Investment Income (Loss) | <u>30,883,502</u> | <u>1,832,072</u> | <u>11,704,351</u> | <u>551,514</u> | <u>44,971,439</u> |
| Total Additions | <u>39,715,970</u> | <u>4,794,873</u> | <u>14,824,824</u> | <u>1,489,212</u> | <u>60,824,879</u> |
| Deductions | | | | | |
| Benefit Payments | | | | | |
| Pension | 11,150,501 | - | 5,211,418 | - | 16,361,919 |
| Health Premiums | - | 786,158 | - | 373,406 | 1,159,564 |
| Total Benefit Payments | <u>11,150,501</u> | <u>786,158</u> | <u>5,211,418</u> | <u>373,406</u> | <u>17,521,483</u> |
| Refunds | 197,614 | - | 34,640 | - | 232,254 |
| Administrative Expense | 143,914 | 8,537 | 86,821 | 4,091 | 243,363 |
| Total Deductions | <u>11,492,029</u> | <u>794,695</u> | <u>5,332,879</u> | <u>377,497</u> | <u>17,997,100</u> |
| Net Increase (Decrease) | 28,223,941 | 4,000,178 | 9,491,945 | 1,111,715 | 42,827,779 |
| Total Net Assets, January 1 | <u>220,758,154</u> | <u>11,863,715</u> | <u>82,903,797</u> | <u>3,634,613</u> | <u>319,160,279</u> |
| Total Net Assets, December 31 | <u>\$ 248,982,095</u> | <u>\$ 15,863,893</u> | <u>\$ 92,395,742</u> | <u>\$ 4,746,328</u> | <u>\$ 361,988,058</u> |