

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



20 15 Annual
Financial Report

For the Fiscal Year Ended December 31, 2015
Prepared by the Finance Department



May 4, 2016

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, 2015, 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 of 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, 2015, 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 7.65 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 7.65 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.

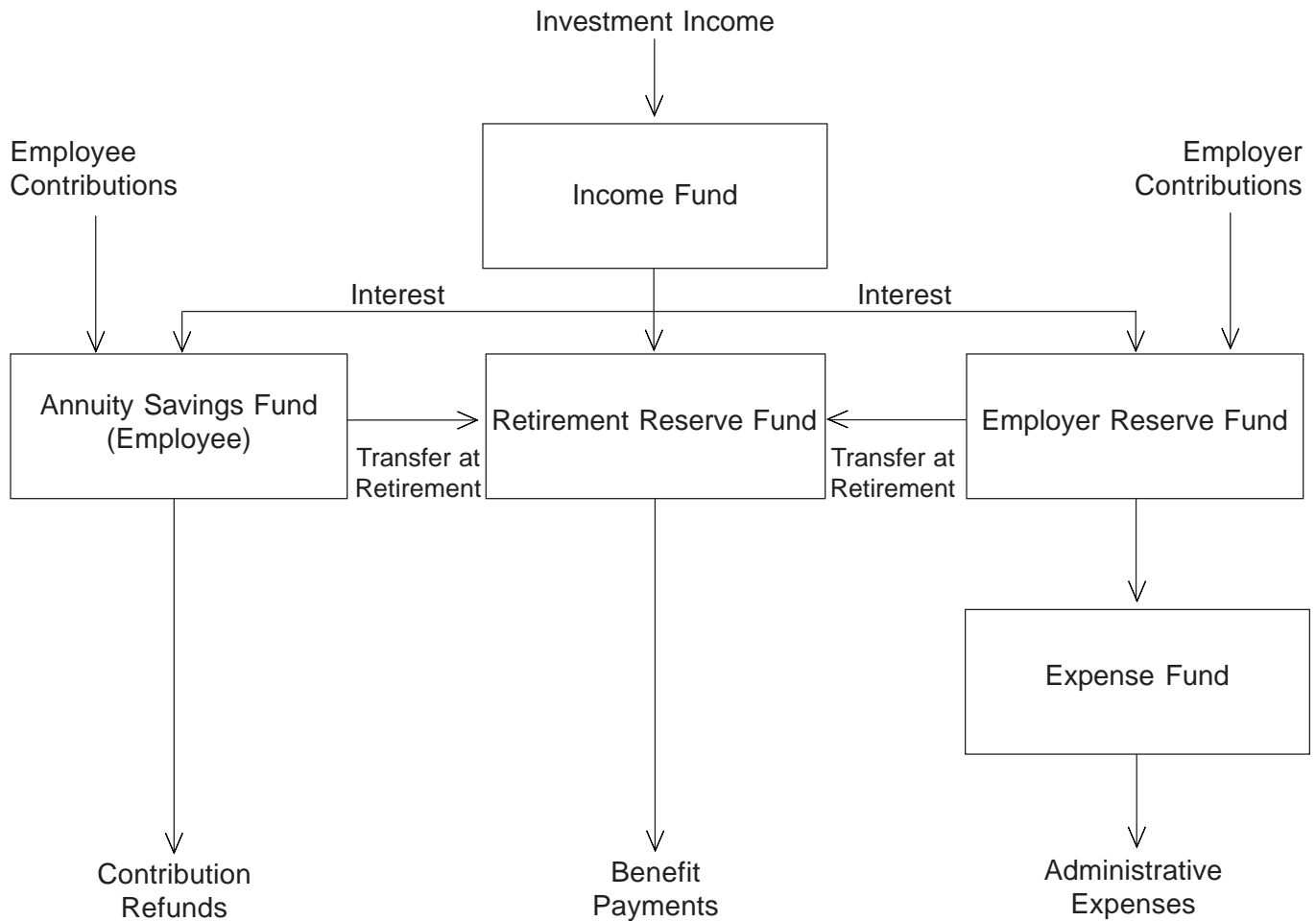
Expense Fund (Ordinance Section 35-49)

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, 2014 and 2015

ASSETS

	<u>2014</u>	<u>2015</u>
Cash in bank	\$ 173,914	\$ 864,327
Prepaid expenses	-	-
Accounts receivable	-	-
Accrued Interest and dividends	732,928	653,004
Investments held by funding agents (at market value):	<u>389,686,260</u>	<u>383,651,150</u>
Total Assets	<u>\$ 390,593,102</u>	<u>\$ 385,168,481</u>

LIABILITIES AND EQUITY

Accrued expense	\$ 3,517	\$ 4,166
Funded reserves:		
Annuity savings fund	40,490,806	40,448,089
Employer reserve fund	172,466,072	151,989,863
Retirement reserve fund	151,266,618	167,973,658
IRC 401(h) fund	26,129,460	24,517,729
Expense fund	<u>236,629</u>	<u>234,976</u>
Total Liabilities & Equity	<u>\$ 390,593,102</u>	<u>\$ 385,168,481</u>

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

STATEMENT OF CHANGES IN RESERVE ACCOUNTS

December 31, 2015

	<u>General Division</u>	<u>Police Division</u>	<u>Total</u>
<u>Annuity Savings Fund</u>			
Balance 1-1	\$ 23,156,278	\$ 17,334,528	\$ 40,490,806
Interest earned-individual accounts	1,073,986	794,125	1,868,111
Member contributions	1,884,881	1,446,247	3,331,128
Contribution refunds	(95,286)	(172,056)	(267,342)
Transfer to retirement reserve fund	(2,882,079)	(2,092,535)	(4,974,614)
Balance 12-31	<u>\$ 23,137,780</u>	<u>\$ 17,310,309</u>	<u>\$ 40,448,089</u>
<u>Employer Reserve Fund</u>			
Balance 1-1	\$ 119,087,522	53,378,550	\$ 172,466,072
Unallocated interest	(9,004,393)	(4,045,452)	(13,049,845)
City contributions - pension	7,549,458	3,868,415	11,417,873
City contributions - pension reserve	-	-	-
Transfers to:			
Expense fund	(124,355)	(55,870)	(180,225)
Retirement reserve fund	(11,210,080)	(7,453,932)	(18,664,012)
Balance 12-31	<u>\$ 106,298,152</u>	<u>\$ 45,691,711</u>	<u>\$ 151,989,863</u>
<u>Retirement Reserve Fund</u>			
Balance 1-1	\$ 84,181,445	67,085,173	\$ 151,266,618
Transfers from:			
Employer reserve fund	11,210,080	7,453,932	18,664,012
Income fund-interest	6,212,260	5,029,460	11,241,720
Annuity savings fund	2,882,079	2,092,535	4,974,614
Pension payments	(11,702,942)	(6,470,364)	(18,173,306)
Balance 12-31	<u>\$ 92,782,922</u>	<u>\$ 75,190,736</u>	<u>\$ 167,973,658</u>
<u>IRC 401(h) Fund</u>			
Balance 1-1	\$ 18,296,685	7,832,775	\$ 26,129,460
Unallocated interest	(677,750)	(304,496)	(982,246)
City contributions:	-	-	-
Expenditures	(9,360)	(4,205)	(13,565)
Group health insurance payment	(342,609)	(273,311)	(615,920)
Balance 12-31	<u>\$ 17,266,966</u>	<u>\$ 7,250,763</u>	<u>\$ 24,517,729</u>

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

December 31, 2014 and 2015

	<u>2014</u>	<u>2015</u>
<u>Annuity Savings Fund</u>		
Balance 1-1	\$ 24,447,320	\$ 23,156,278
Interest earned-individual accounts	1,072,198	1,073,986
Member contributions	1,593,719	1,884,881
Contribution refunds	(99,345)	(95,286)
Transfer to retirement reserve fund	<u>(3,857,614)</u>	<u>(2,882,079)</u>
Balance 12-31	<u>\$ 23,156,278</u>	<u>\$ 23,137,780</u>
<u>Employer Reserve Fund</u>		
Balance 1-1	\$ 120,213,122	\$ 119,087,522
Unallocated interest	8,365,196	(9,004,393)
City contributions - pension	7,190,992	7,549,458
City contributions - pension reserve	-	-
Transfers to:		
Expense fund	(103,998)	(124,355)
Retirement reserve fund	<u>(16,577,790)</u>	<u>(11,210,080)</u>
Balance 12-31	<u>\$ 119,087,522</u>	<u>\$ 106,298,152</u>
<u>Retirement Reserve Fund</u>		
Balance 1-1	\$ 68,507,816	\$ 84,181,445
Transfers from:		
Employer reserve fund	16,577,790	11,210,080
Income fund-interest	5,696,025	6,212,260
Annuity savings fund	3,857,614	2,882,079
Pension payments	<u>(10,457,800)</u>	<u>(11,702,942)</u>
Balance 12-31	<u>\$ 84,181,445</u>	<u>\$ 92,782,922</u>
<u>IRC 401(h) Fund</u>		
Balance 1-1	\$ 18,125,345	\$ 18,296,685
Unallocated Interest	629,638	(677,750)
City Contribution health	-	-
Expenditures	(7,828)	(9,360)
Group health insurance payment	<u>(450,470)</u>	<u>(342,609)</u>
Balance 12-31	<u>\$ 18,296,685</u>	<u>\$ 17,266,966</u>

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

December 31, 2014 and 2015

	<u>2014</u>	<u>2015</u>
<u>Annuity Savings Fund</u>		
Balance 1-1	\$ 18,164,581	\$ 17,334,528
Interest earned-individual accounts	790,877	794,125
Member contributions	1,372,733	1,446,247
Contribution refunds	(138,438)	(172,056)
Transfer to retirement reserve fund	<u>(2,855,225)</u>	<u>(2,092,535)</u>
Balance 12-31	<u>\$ 17,334,528</u>	<u>\$ 17,310,309</u>
<u>Employer Reserve Fund</u>		
Balance 1-1	\$ 56,507,207	\$ 53,378,550
Unallocated interest	3,936,563	(4,045,452)
City contributions pension	3,479,114	3,868,415
City contributions pension reserve	-	-
Transfers to:		
Expense fund	(48,940)	(55,870)
Retirement reserve fund	<u>(10,495,394)</u>	<u>(7,453,932)</u>
Balance 12-31	<u>\$ 53,378,550</u>	<u>\$ 45,691,711</u>
<u>Retirement Reserve Fund</u>		
Balance 1-1	\$ 54,877,725	\$ 67,085,173
Transfers from:		
Employer reserve fund	10,495,394	7,453,932
Income fund-interest	4,544,903	5,029,460
Annuity savings fund	2,855,225	2,092,535
Pension payments	<u>(5,688,074)</u>	<u>(6,470,364)</u>
Balance 12-31	<u>\$ 67,085,173</u>	<u>\$ 75,190,736</u>
<u>IRC 401(h) Fund</u>		
Balance 1-1	\$ 7,844,356	\$ 7,832,775
Unallocated Interest	296,300	(304,496)
City Contributions	-	-
Expenditures	(3,684)	(4,205)
Group health insurance payment	<u>(304,197)</u>	<u>(273,311)</u>
Balance 12-31	<u>\$ 7,832,775</u>	<u>\$ 7,250,763</u>

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

INCOME AND EXPENSE FUNDS

December 31, 2014 and 2015

<u>Income Fund</u>	<u>2014</u>	<u>2015</u>
Balance 1-1	\$ -	\$ -
Revenue:		
Other income	-	-
Investment income	34,629,174	16,446,992
Increase (decrease) in unrealized market value	<u>(8,295,164)</u>	<u>(16,156,205)</u>
Total balance and revenue	<u>26,334,010</u>	<u>290,787</u>
Expenditures:		
Transfers to:		
Annuity savings fund-interest	1,863,075	1,868,111
Employer reserve fund-interest	12,301,759	(13,049,845)
Retirement reserve fund-interest	10,240,928	11,241,721
IRC 401(h) fund-interest	925,939	(982,246)
Funding agent, trustee, & consultant fees	<u>1,002,309</u>	<u>1,213,046</u>
Total expenditures	<u>26,334,010</u>	<u>290,787</u>
Balance 12-31	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Expense Fund</u>		
Balance 1-1	\$ 248,012	\$ 236,629
Revenue:		
Transfer from employer reserve fund	152,939	180,225
Transfer from IRC 401(h) fund	<u>11,512</u>	<u>13,565</u>
Funds available	<u>412,462</u>	<u>430,419</u>
Expenditures (administrative):		
Actuarial fees	40,398	47,556
Legal fees	3,485	10,189
Wages & benefits	129,753	135,670
Other operating	<u>2,197</u>	<u>2,028</u>
Total expenditures	<u>175,833</u>	<u>195,443</u>
Balance 12-31	<u>\$ 236,629</u>	<u>\$ 234,976</u>

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

STATEMENT OF REVENUES AND EXPENSES

December 31, 2014 and 2015

	<u>2014</u>	<u>2015</u>
Operating revenues:		
Investment income	34,629,174	16,446,992
Member contributions	2,966,452	3,331,128
City contributions:		
Pension	10,670,106	11,417,873
Pension Reserve	-	-
Health	-	-
Other revenue	-	-
Total operating revenues	<u>48,265,732</u>	<u>31,195,993</u>
Operating expenses:		
Benefit payments	15,505,515	17,052,452
Benefit payments - stipends	640,359	1,120,855
Group health insurance payments	754,667	615,920
Contribution refunds	237,783	267,342
Funding agent fees	906,660	1,094,282
Investment consultant fees	52,500	60,000
Trustee fees	43,149	58,764
Actuarial fees	40,398	47,556
Legal fees	3,485	10,189
Other operating expenses	131,949	137,698
Total operating expenses	<u>18,316,465</u>	<u>20,465,058</u>
Operating income	29,949,267	10,730,935
Nonoperating revenue:		
Increase (decrease) in unrealized market value	<u>(8,295,164)</u>	<u>(16,156,205)</u>
Net income (loss)	21,654,103	(5,425,270)
Fund balance 1-1	<u>368,935,482</u>	<u>390,589,585</u>
Fund balance 12-31	<u>\$ 390,589,585</u>	<u>\$ 385,164,315</u>

Notes to Financial Statements - Fiduciary Funds Statement of Net Position

	<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	\$ 4,750,990	\$ 322,985	\$ 1,662,468	\$ 89,675	\$ 6,826,118
Receivables:					
Interest	611,437	41,567	201,288	10,858	865,150
Total Receivables	<u>611,437</u>	<u>41,567</u>	<u>201,288</u>	<u>10,858</u>	<u>865,150</u>
Investments at Fair Value:					
US Government	11,663,287	792,902	5,004,353	269,938	17,730,480
Corporate Obligations	41,330,381	2,809,751	14,416,413	777,632	59,334,177
Foreign Obligations	8,244,779	560,502	1,965,347	106,012	10,876,640
State and Local Obligations	1,046,526	71,146	377,503	20,363	1,515,538
Domestic Stocks	94,589,442	6,430,446	33,355,323	1,799,210	136,174,421
Foreign Stocks	8,311,405	565,032	2,921,437	157,584	11,955,458
Index Funds:					
Equity	60,463,226	4,110,453	21,603,944	1,165,333	87,342,956
Government / Corporate Bonds	25,072,745	1,704,513	9,039,904	487,619	36,304,781
Mutual Funds:					
Foreign Equity	63,709,418	4,331,138	23,303,625	1,257,015	92,601,196
Domestic Equity	17,028,155	1,157,620	5,986,229	322,902	24,494,906
Real Estate	23,828,696	1,619,939	8,944,870	482,493	34,875,998
Total Investments	<u>355,288,060</u>	<u>24,153,442</u>	<u>126,918,948</u>	<u>6,846,101</u>	<u>513,206,551</u>
Total Assets	<u>360,650,487</u>	<u>24,517,994</u>	<u>128,782,705</u>	<u>6,946,633</u>	<u>520,897,819</u>
Liabilities					
Total Liabilities	<u>3,901</u>	<u>265</u>	<u>2,413</u>	<u>130</u>	<u>6,709</u>
Net Position					
Restricted for Pension and Post Employment Health Care Benefits	<u>\$360,646,586</u>	<u>\$24,517,729</u>	<u>\$128,780,292</u>	<u>\$6,946,503</u>	<u>\$ 520,891,110</u>

City of Sioux Falls
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Notes to Financial Statements - Fiduciary Funds Changes in Net Position

	Employees' Retirement		Firefighters' Pension		Total Pension and Health Care Trust Funds
	Pension	Health Care	Pension	Health Care	
Additions					
Contributions					
Employer	\$ 11,417,873	\$ -	\$ 4,424,656	\$ -	\$ 15,842,529
Plan Members	3,331,128	-	1,150,548	-	4,481,676
Total Contributions	<u>14,749,001</u>	<u>-</u>	<u>5,575,204</u>	<u>-</u>	<u>20,324,205</u>
Investment Income (Loss)	1,188,120	(897,333)	476,910	(258,566)	509,131
Less Investment Expense	1,128,133	84,913	445,483	23,446	1,681,975
Net Investment Income (Loss)	<u>59,987</u>	<u>(982,246)</u>	<u>31,427</u>	<u>(282,012)</u>	<u>(1,172,844)</u>
Total Additions	<u>14,808,988</u>	<u>(982,246)</u>	<u>5,606,631</u>	<u>(282,012)</u>	<u>19,151,361</u>
Deductions					
Benefit Payments					
Pension	18,173,306	-	6,881,461	-	25,054,767
Health Premiums	-	615,920	-	286,327	902,247
Total Benefit Payments	<u>18,173,306</u>	<u>615,920</u>	<u>6,881,461</u>	<u>286,327</u>	<u>25,957,014</u>
Refunds	267,342	-	32,636	-	299,978
Administrative Expense	181,879	13,565	109,826	5,467	310,737
Total Deductions	<u>18,622,527</u>	<u>629,485</u>	<u>7,023,923</u>	<u>291,794</u>	<u>26,567,729</u>
Net Increase (Decrease)	(3,813,539)	(1,611,731)	(1,417,292)	(573,806)	(7,416,368)
Total Net Position, January 1	<u>364,460,125</u>	<u>26,129,460</u>	<u>130,197,584</u>	<u>7,520,309</u>	<u>528,307,478</u>
Total Net Position, December 31	<u>\$360,646,586</u>	<u>\$24,517,729</u>	<u>\$ 128,780,292</u>	<u>\$ 6,946,503</u>	<u>\$ 520,891,110</u>