

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



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20 12 Annual
Financial Report

For the Fiscal Year Ended December 31, 2012
Prepared by the Accounting Division



May 2, 2013

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, 2012, 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, 2012, 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 7.75 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 7.75 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.

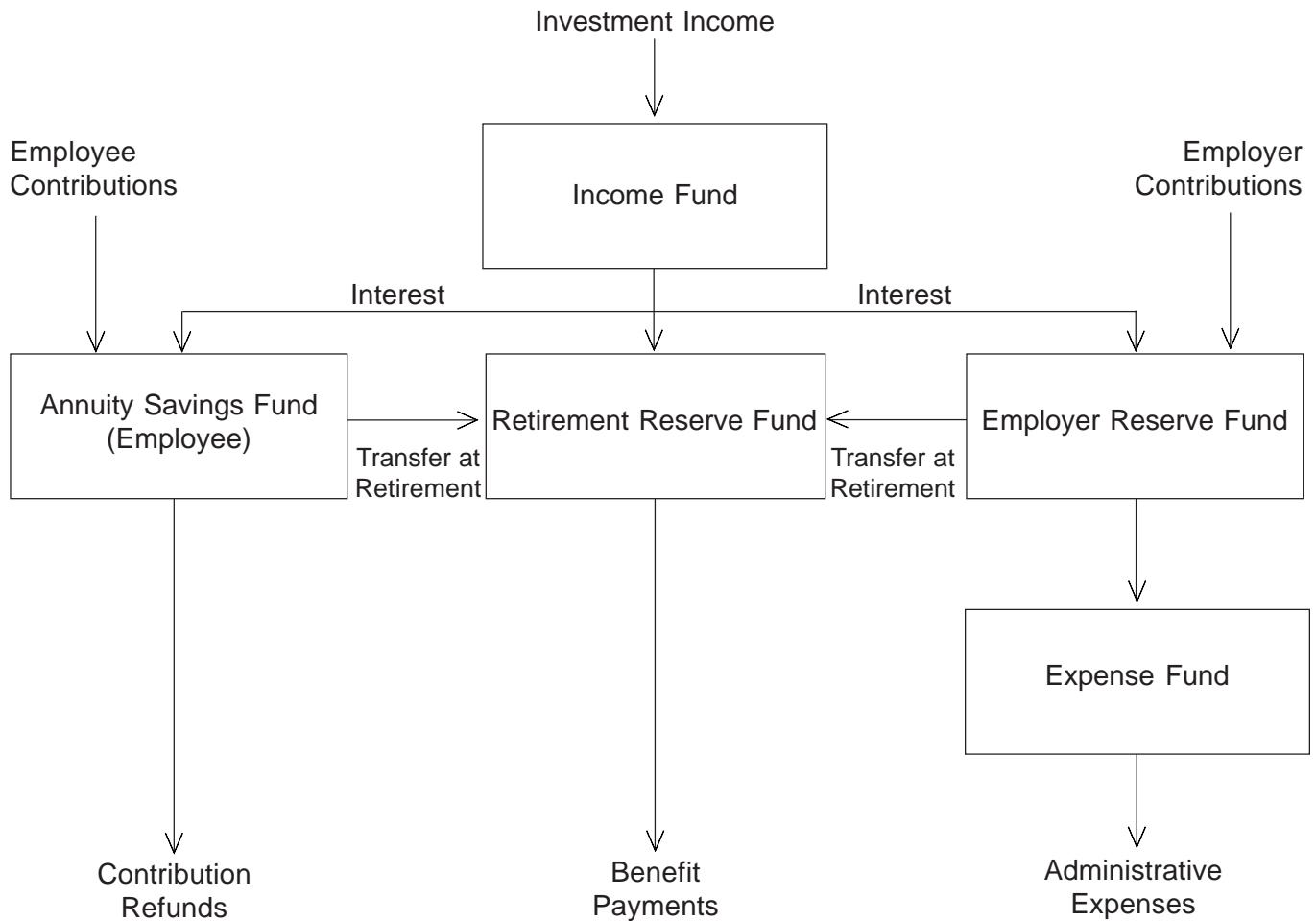
Expense Fund (Ordinance Section 35-49)

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, 2011 and 2012

ASSETS

	2011	2012
Cash in bank	\$ 348,601	\$ 143,262
Prepaid expenses	-	-
Accounts receivable	-	-
Accrued Interest and dividends	704,250	639,500
Investments held by funding agents (at market value):	268,481,248	307,240,359
Total Assets	\$ 269,534,099	\$ 308,023,121

LIABILITIES AND EQUITY

Accounts payable	\$ -	\$ -
Funded reserves:		
Annuity savings fund	37,885,680	39,524,103
Employer reserve fund	98,362,453	122,890,638
Retirement reserve fund	114,851,812	122,571,337
IRC 401(h) fund	18,179,809	22,807,459
Income fund	-	-
Expense fund	254,345	229,584
Total Liabilities & Equity	\$ 269,534,099	\$ 308,023,121

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

STATEMENT OF CHANGES IN RESERVE ACCOUNTS

December 31, 2012

	<u>General Division</u>	<u>Police Division</u>	<u>Total</u>
<u>Annuity Savings Fund</u>			
Balance 1-1	\$ 22,630,022	\$ 15,255,658	\$ 37,885,680
Interest earned-individual accounts	1,091,742	762,801	1,854,543
Member contributions	1,164,136	1,171,315	2,335,451
Contribution refunds	(124,301)	(175,973)	(300,274)
Transfer to retirement reserve fund	(1,722,336)	(528,961)	(2,251,297)
Balance 12-31	<u>\$ 23,039,263</u>	<u>\$ 16,484,840</u>	<u>\$ 39,524,103</u>
<u>Employer Reserve Fund</u>			
Balance 1-1	\$ 68,492,407	29,870,046	\$ 98,362,453
Unallocated interest	18,302,857	7,994,352	26,297,209
City contributions pension	4,904,189	3,023,915	7,928,104
Transfers to:			
Expense fund	(79,125)	(34,560)	(113,685)
Retirement reserve fund	(7,311,857)	(2,271,586)	(9,583,443)
Balance 12-31	<u>\$ 84,308,471</u>	<u>\$ 38,582,167</u>	<u>\$ 122,890,638</u>
<u>Retirement Reserve Fund</u>			
Balance 1-1	\$ 62,255,789	52,596,023	\$ 114,851,812
Transfers from:			
Employer reserve fund	7,311,857	2,271,586	9,583,443
Income fund-interest	4,849,722	4,007,219	8,856,941
Annuity savings fund	1,722,336	528,961	2,251,297
Pension payments	(8,391,655)	(4,580,501)	(12,972,156)
Balance 12-31	<u>\$ 67,748,049</u>	<u>\$ 54,823,288</u>	<u>\$ 122,571,337</u>
<u>IRC 401(h) Fund</u>			
Balance 1-1	\$ 12,190,524	5,989,285	\$ 18,179,809
Unallocated interest	1,468,715	641,508	2,110,223
City contributions:	2,108,872	1,309,933	3,418,805
Expenditures	657,953	(700,508)	(42,555)
Group health insurance payment	(552,073)	(306,750)	(858,823)
Balance 12-31	<u>\$ 15,873,991</u>	<u>\$ 6,933,468</u>	<u>\$ 22,807,459</u>

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

December 31, 2011 and 2012

	<u>2011</u>	<u>2012</u>
<u>Annuity Savings Fund</u>		
Balance 1-1	\$ 21,824,122	\$ 22,630,022
Interest earned-individual accounts	1,064,826	1,091,742
Member contributions	1,119,172	1,164,136
Contribution refunds	(85,470)	(124,301)
Transfer to retirement reserve fund	<u>(1,292,628)</u>	<u>(1,722,336)</u>
Balance 12-31	<u>\$ 22,630,022</u>	<u>\$ 23,039,263</u>
<u>Employer Reserve Fund</u>		
Balance 1-1	\$ 73,140,094	\$ 68,492,407
Unallocated interest	(3,597,770)	18,302,857
City contributions pension	4,842,054	4,904,189
Transfers to:		
Expense fund	(196,444)	(79,125)
Retirement reserve fund	<u>(5,695,527)</u>	<u>(7,311,857)</u>
Balance 12-31	<u>\$ 68,492,407</u>	<u>\$ 84,308,471</u>
<u>Retirement Reserve Fund</u>		
Balance 1-1	\$ 58,534,421	\$ 62,255,789
Transfers from:		
Employer reserve fund	5,695,527	7,311,857
Income fund-interest	4,506,013	4,849,722
Annuity savings fund	1,292,628	1,722,336
Pension payments	(7,772,800)	(8,391,655)
Group health insurance payment	-	-
Balance 12-31	<u>\$ 62,255,789</u>	<u>\$ 67,748,049</u>
<u>IRC 401(h) Fund</u>		
Balance 1-1	\$ 10,716,307	\$ 12,190,524
Unallocated Interest	223,521	1,468,715
City Contribution health	1,797,849	2,108,872
Expenditures	(13,432)	657,953
Group health insurance payment	<u>(533,721)</u>	<u>(552,073)</u>
Balance 12-31	<u>\$ 12,190,524</u>	<u>\$ 15,873,991</u>

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

December 31, 2011 and 2012

	<u>2011</u>	<u>2012</u>
<u>Annuity Savings Fund</u>		
Balance 1-1	\$ 14,572,407	\$ 15,255,658
Interest earned-individual accounts	712,930	762,801
Member contributions	1,133,826	1,171,315
Contribution refunds	(29,564)	(175,973)
Transfer to retirement reserve fund	(1,133,941)	(528,961)
Balance 12-31	<u>\$ 15,255,658</u>	<u>\$ 16,484,840</u>
<u>Employer Reserve Fund</u>		
Balance 1-1	\$ 33,431,218	\$ 29,870,046
Unallocated interest	(1,646,792)	7,994,352
City contributions pension	2,888,932	3,023,915
Transfers to:		
Expense fund	(89,918)	(34,560)
Retirement reserve fund	(4,713,394)	(2,271,586)
Balance 12-31	<u>\$ 29,870,046</u>	<u>\$ 38,582,167</u>
<u>Retirement Reserve Fund</u>		
Balance 1-1	\$ 47,287,324	\$ 52,596,023
Transfers from:		
Employer reserve fund	4,713,394	2,271,586
Income fund-interest	3,726,094	4,007,219
Annuity savings fund	1,133,941	528,961
Pension payments	(4,264,730)	(4,580,501)
Group health insurance payment	-	-
Balance 12-31	<u>\$ 52,596,023</u>	<u>\$ 54,823,288</u>
<u>IRC 401(h) Fund</u>		
Balance 1-1	\$ 5,147,586	\$ 5,989,285
Unallocated Interest	102,311	641,508
City Contributions	1,070,493	1,309,933
Expenditures	(6,148)	(700,508)
Group health insurance payment	(324,957)	(306,750)
Balance 12-31	<u>\$ 5,989,285</u>	<u>\$ 6,933,468</u>

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

INCOME AND EXPENSE FUNDS

December 31, 2011 and 2012

<u>Income Fund</u>	<u>2011</u>	<u>2012</u>
Balance 1-1	\$ -	\$ -
Revenue:		
Interest earned-City	603	1,644
Other income	-	-
Investment earnings-funding agents	14,048,081	13,150,494
Increase (decrease) in unrealized market value	<u>(8,362,449)</u>	<u>26,663,384</u>
Total balance and revenue	<u>5,686,235</u>	<u>39,815,522</u>
Expenditures:		
Transfers to:		
Annuity savings fund-interest	1,777,756	1,854,543
Employer reserve fund-interest	(5,244,562)	26,297,211
Retirement reserve fund-interest	8,232,106	8,856,941
IRC 401(h) fund-interest	325,833	2,110,223
Funding agent, trustee, & consultant fees	<u>595,102</u>	<u>696,604</u>
Total expenditures	<u>5,686,235</u>	<u>39,815,522</u>
Balance 12-31	<u>\$ -</u>	<u>\$ -</u>
 <u>Expense Fund</u>		
Balance 1-1	\$ 192,509	\$ 254,345
Revenue:		
Transfer from employer reserve fund	286,362	156,240
Transfer from IRC 401(h) fund	<u>19,580</u>	<u>-</u>
Funds available	<u>498,451</u>	<u>410,585</u>
Expenditures:		
Actuary fees	78,736	43,994
Audit fees	1,575	1,864
Wages & benefits	117,269	119,593
Supplies & materials	234	1,609
Travel and education	-	12
Disability exams	600	900
Other expenses	<u>45,692</u>	<u>13,029</u>
Total expenditures	<u>244,106</u>	<u>181,001</u>
Balance 12-31	<u>\$ 254,345</u>	<u>\$ 229,584</u>

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

STATEMENT OF REVENUES AND EXPENSES

December 31, 2011 and 2012

	<u>2011</u>	<u>2012</u>
Operating revenues:		
Investment earnings:		
City	\$ 603	\$ 1,644
Funding agents	14,048,081	13,150,494
Member contributions	2,252,998	2,335,450
City contributions:		
Pension	7,730,986	7,928,103
Health	2,868,342	3,418,805
Other revenue	-	-
Total operating revenues	<u>26,901,010</u>	<u>26,834,496</u>
Operating expenses:		
Benefit payments	12,037,530	12,972,156
Group health insurance payments	858,678	858,823
Contribution refunds	115,034	300,274
Funding agent fees	525,040	619,050
Trustee fees	40,062	43,179
Investment consultant fees	30,000	34,375
Actuary fees	78,736	43,994
Actuarial studies	45,500	12,300
Audit fees	1,575	1,864
Other operating expenses	118,295	122,843
Total operating expenses	<u>13,850,450</u>	<u>15,008,858</u>
Operating income	13,050,560	11,825,638
Nonoperating revenue:		
Increase (decrease) in unrealized market value	<u>(8,362,449)</u>	<u>26,663,384</u>
Net income (loss)	4,688,111	38,489,022
Fund balance 1-1	<u>264,845,988</u>	<u>269,534,099</u>
Fund balance 12-31	<u>\$ 269,534,099</u>	<u>\$ 308,023,121</u>

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

EXPENSE FUND BALANCE

2013 Budget

2013 Approved Expense Fund Budget:	
Wages & Benefits	\$ 123,671
Insurance	688
Actuarial Services	73,300
Legal & Audit Services	21,800
Health Services (Disability Exams)	8,000
Supplies & Materials	950
Travel and Education	1,175
Other Expenses	-
Total	<u>\$ 229,584</u>

Notes to Financial Statements - Fiduciary Funds Statement of Net Position

	Employees' Retirement		Firefighters' Pension		Total Pension and Health Care Trust Funds
	Pension	Health Care	Pension	Health Care	
Assets					
Cash and Cash Equivalents	\$ 2,507,683	\$ 200,528	\$ 581,782	\$ 39,330	\$ 3,329,323
Receivables:					
Interest	592,148	47,352	208,858	14,119	862,477
Total Receivables	<u>592,148</u>	<u>47,352</u>	<u>208,858</u>	<u>14,119</u>	<u>862,477</u>
Investments at Fair Value:					
US Government	3,741,971	299,229	1,340,155	90,598	5,471,953
Corporate Obligations	30,604,839	2,447,336	11,848,440	800,984	45,701,599
Foreign Obligations	10,056,244	804,154	2,395,271	161,926	13,417,595
State and Local Obligations	3,531,495	282,398	1,272,369	86,015	5,172,277
Domestic Stocks	60,330,356	4,824,357	21,970,203	1,485,241	88,610,157
Foreign Stocks	5,349,672	427,790	1,966,688	132,953	7,877,103
Index Funds:					
Equity	54,580,310	4,364,550	19,933,975	1,347,587	80,226,422
Government / Corporate Bonds	19,714,890	1,576,514	7,242,044	489,580	29,023,028
Mutual Funds:					
Foreign Equity	49,503,601	3,958,588	17,905,040	1,210,426	72,577,655
Domestic Equity	28,586,261	2,285,919	10,514,809	710,828	42,097,817
Real Estate	16,116,194	1,288,742	6,039,327	408,274	23,852,537
Total Investments	<u>282,115,831</u>	<u>22,559,579</u>	<u>102,428,320</u>	<u>6,924,413</u>	<u>414,028,143</u>
Total Assets	<u>285,215,662</u>	<u>22,807,459</u>	<u>103,218,960</u>	<u>6,977,862</u>	<u>418,219,943</u>
Liabilities					
Total Liabilities	-	-	-	-	-
Net Position					
Held in Trust for Pension and Post Employment Health Care Benefits	<u>\$285,215,662</u>	<u>\$22,807,459</u>	<u>\$103,218,960</u>	<u>\$6,977,862</u>	<u>\$ 418,219,943</u>

City of Sioux Falls
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	\$ 7,928,103	\$ 3,418,805	\$ 2,871,208	\$ 1,098,951	\$ 15,317,067
Plan Members	2,335,450	-	911,291	-	3,246,741
Total Contributions	<u>10,263,553</u>	<u>3,418,805</u>	<u>3,782,499</u>	<u>1,098,951</u>	<u>18,563,808</u>
Investment Income (Loss)	37,705,299	2,110,223	13,398,315	855,212	54,069,049
Less Investment Expense	659,684	36,920	255,736	16,324	968,664
Net Investment Income (Loss)	<u>37,045,615</u>	<u>2,073,303</u>	<u>13,142,579</u>	<u>838,888</u>	<u>53,100,385</u>
Total Additions	<u>47,309,168</u>	<u>5,492,108</u>	<u>16,925,078</u>	<u>1,937,839</u>	<u>71,664,193</u>
Deductions					
Benefit Payments					
Pension	12,972,156	-	5,848,568	-	18,820,724
Health Premiums	-	858,823	-	364,617	1,223,440
Total Benefit Payments	<u>12,972,156</u>	<u>858,823</u>	<u>5,848,568</u>	<u>364,617</u>	<u>20,044,164</u>
Refunds	300,274	-	-	-	300,274
Administrative Expense	<u>171,408</u>	<u>9,593</u>	<u>106,954</u>	<u>6,827</u>	<u>294,782</u>
Total Deductions	<u>13,443,838</u>	<u>868,416</u>	<u>5,955,522</u>	<u>371,444</u>	<u>20,639,220</u>
Net Increase (Decrease)	33,865,330	4,623,692	10,969,556	1,566,395	51,024,973
Total Net Position, January 1	<u>251,350,332</u>	<u>18,183,767</u>	<u>92,249,404</u>	<u>5,411,467</u>	<u>367,194,970</u>
Total Net Position, December 31	<u>\$285,215,662</u>	<u>\$22,807,459</u>	<u>\$ 103,218,960</u>	<u>\$ 6,977,862</u>	<u>\$ 418,219,943</u>