



Financial Statements
June 30, 2014

**South Dakota Retirement System,
South Dakota Retirement System
Supplemental Retirement Plan, and
South Dakota Retirement System
Special Pay Plan**

**SOUTH DAKOTA RETIREMENT SYSTEM,
SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN,
SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN**

Table of Contents

South Dakota Retirement System

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Financial Statements	
Statement of Fiduciary Net Position	8
Statement of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10
Required Supplementary Information	
Schedule of Changes in the System’s Net Pension Asset	29
Schedule of System’s Net Pension Asset	30
Schedule of System’s Contributions	30
Schedule of Investment Returns	31
Notes to Schedule of Required Supplementary Information	32
Other Supplementary Information	
Schedule of Administrative Expenses	33
Schedule of Investment Activity Expenses	34
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35

South Dakota Retirement System Supplemental Retirement Plan

Independent Auditor’s Report	37
Management’s Discussion and Analysis	39
Financial Statements	
Statement of Fiduciary Net Position	42
Statement of Changes in Fiduciary Net Position	43
Notes to Financial Statements	44
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48

South Dakota Retirement System Special Pay Plan

Independent Auditor’s Report	50
Management’s Discussion and Analysis	52
Financial Statements	
Statement of Fiduciary Net Position	55
Statement of Changes in Fiduciary Net Position	56
Notes to Financial Statements	57
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61



Independent Auditor's Report

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Retirement System (SDRS), which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective statement of the fiduciary net position of the South Dakota Retirement System, as of June 30, 2014, and the respective statement of changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the financial statements include investments valued at \$3,047,584,045 (28.74% of net position) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Cement Plant Merger and Adoption of New Accounting Standard

As described in Note 15 and Note 16 to the financial statements, the South Dakota Retirement System merged in the Cement Plant Retirement Fund which had a net position of \$54,228,036 as of June 30, 2013. The South Dakota Retirement System elected to early implement the provisions of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and thus updated the previously reported net position to account for the merger in accordance with this statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4-7 and 29-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SDRS's basic financial statements as a whole.

The additional supplementary information accompanying financial information listed as supplemental schedules in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying financial information listed as supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the SDRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDRS's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

November 25, 2014
Boise, Idaho

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2014

This section presents management's discussion and analysis of the South Dakota Retirement System's (SDRS or the System) financial position and performance as of and for the year ended June 30, 2014. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Under SDCL 3-12-218, the Cement Plant Retirement Fund was approved to be merged in with SDRS. All members of the Cement Plant Retirement Fund (the Cement Plant), including any retiree and any vested member, became class C members of the South Dakota Retirement System on April 1, 2014. The system will continue to provide the same benefits for the class C members as what they previously received.

Financial Highlights

- The fiduciary net position of SDRS increased by \$1.5 billion during fiscal year 2014. This increase was primarily due to the investment performance of 19.32%, which was significantly above the assumed rate of 7.25%.
- SDRS paid \$421.9 million to SDRS benefit recipients in fiscal year 2014 compared to \$397.6 million in 2013 and \$4 million to Cement Plant Retirement Fund benefit recipients in fiscal year 2014. SDRS received \$211.1 million in SDRS member and employer contributions in fiscal year 2014 compared to \$202.1 million 2013. On April 1, 2014, the SDRS received funds of \$66.4 million to fully fund the benefits to be paid for the Cement Plant Retirement Fund.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The System presents the statement of the fiduciary net position as of June 30, 2014 and the statement of changes in fiduciary net position for the year then ended. These statements reflect resources available for the payment of benefits as of the year-end and sources and uses of those funds during the year.

Notes to Financial Statements

The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules. Information in the notes provides disclosures concerning SDRS's organization, contributions and reserves, investments, the use of derivatives and securities lending, and other information.

Supplemental Information

In addition to this discussion and analysis, the supplemental information also consists of two schedules of trend data and related notes concerning the funded status of SDRS and employer contributions.

Other supplementary schedules include detailed information on administrative expenses incurred by SDRS and a breakout of investment manager fees.

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2014

Financial Analysis

SDRS is a cost-sharing, multiple-employer public employee retirement system. SDRS provides retirement, disability, and survivor benefits for employees of the state of South Dakota and its political subdivisions. The benefits are funded through member and employer contributions and investment income.

SDRS benefits are based on the members' final average compensation, their years of credited service, and a benefit multiplier and are payable for life with a 60% survivor benefit.

A summary of the fiduciary net position is shown below:

Summary of Fiduciary Net Position

June 30, 2014 and 2013

	2014	As Restated 2013
Assets:		
Cash and cash equivalents	\$ 2,597,852	\$ 9,285,944
Receivables	33,945,006	51,390,980
Investments, at fair value	10,602,044,751	9,173,940,376
Other assets	353,484	26,442
Due from brokers – futures transactions	-	1,870,102
Total assets	<u>10,638,941,093</u>	<u>9,236,513,844</u>
Liabilities:		
Accounts payable and accrued expenses	2,354,618	2,232,483
Securities sold, but not yet purchased	-	55,977,321
Unsettled investment purchases	29,008,600	38,369,296
Due to brokers – futures transactions	23,383	-
Total liabilities	<u>31,386,601</u>	<u>96,579,100</u>
Net position restricted for pension benefits	<u>\$ 10,607,554,492</u>	<u>\$ 9,139,934,744</u>

Change in Fiduciary Net Position

Additions to the fiduciary net position include member and employer contributions and net investment income. The fixed member and employer contribution rates are established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contribution rates to pay the normal cost of benefits, expenses, and amortize the unfunded actuarial accrued liability. In addition to the fixed contributions, members and employers may make additional contributions to purchase uncredited prior service. These purchase or acquisition payments are also included as contributions. As the SDRS membership ages, the number and amount of purchases have grown.

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.25% at June 30, 2014. The investment returns were 19.32% for 2014 and 19.53% for 2013.

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2014

Deductions from fiduciary net position are primarily benefit payments. During 2014, SDRS paid \$425.8 million to benefit recipients or 7.1% more than 2013. The increase is due to added recipients due to the Cement Plant Retirement Fund merger and the annual 3.1% cost-of-living adjustment. Refunds of accumulated contributions during 2014 decreased 2.0%. Administrative costs of SDRS represent 7.5% of fiduciary net position.

A summary of the changes in fiduciary net position is shown below:

	<u>2014</u>	<u>2013</u>	<u>Percentage change</u>
Additions:			
Employee contributions	\$ 106,175,381	\$ 101,678,721	4.4%
Employer contributions	112,551,482	100,376,481	12.1
Investment income	1,703,240,824	1,467,497,091	16.1
Total additions	<u>1,921,967,687</u>	<u>1,669,552,293</u>	<u>15.1</u>
Deductions:			
Benefits	425,823,928	397,620,115	7.1
Refunds of contributions	24,666,785	25,160,994	(2.0)
Administrative expenses	3,857,226	3,588,717	7.5
Total deductions	<u>454,347,939</u>	<u>426,369,826</u>	<u>6.6</u>
Net change in plan net position	1,467,619,748	1,243,182,467	18.1
Plan net position restricted for pension benefits:			
Beginning of year	9,139,934,744	7,842,524,241	16.5
Cement Plant Retirement Fund Merger	-	54,228,036	—
End of year	<u>\$ 10,607,554,492</u>	<u>\$ 9,139,934,744</u>	<u>16.1%</u>

Investments

SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Investment performance during 2014 and 2013 was 19.32% and 19.53%, respectively.

The Investment Council is governed by the prudent-man standard, as defined in South Dakota Codified Law §4-5-27:

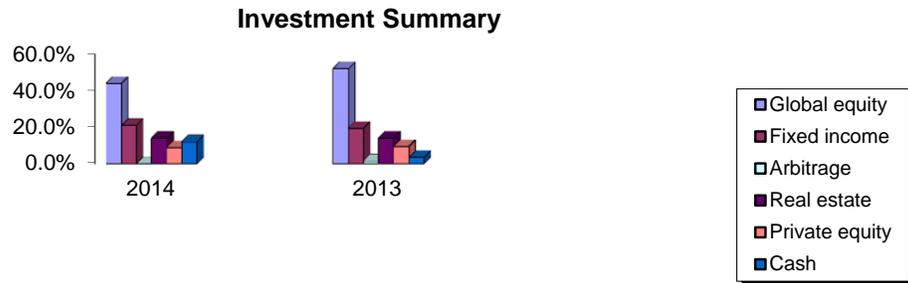
§4-5-27. Prudent-man standard required in investments. Any investments under the provisions of §4-5-12 to §4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2014

Though monthly benefit payments exceed monthly contributions, the SDRS is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to maintain a high percentage of assets in short-term investments unless that is deemed to be the best investment strategy. This allows the SDRS trust fund to be fully invested in a diversified portfolio of securities.



Plan Status

While the markets have not always made it possible to achieve the long-term assumptions, the System's funding remains solid. The reserve for long-term benefit goals has provided a process for both improving benefits and protecting the System in down markets.

Requests for Information

Requests for information about SDRS may be directed to the South Dakota Retirement System at P.O. Box 1098, Pierre, SD 57501. You may also contact SDRS online at www.sdrs.sd.gov.

SOUTH DAKOTA RETIREMENT SYSTEM

Statement of Fiduciary Net Position

June 30, 2014

Assets	
Cash and cash equivalents	\$ 2,597,852
Receivables	
Employer	2,132,525
Employee	2,271,091
Benefits	43,000
Unsettled investment sales	10,647,176
Accrued interest and dividends	18,851,214
Total receivables	<u>33,945,006</u>
Investments, at fair value	
Fixed income	2,081,961,273
Equities	6,041,408,091
Real estate	1,518,520,718
Private equity	960,154,669
Total investments, at fair value	<u>10,602,044,751</u>
Property, at cost (net of accumulated depreciation of \$13,728)	<u>14,372</u>
Computer software development in progress	<u>314,935</u>
Other assets	<u>24,177</u>
Total assets	<u>10,638,941,093</u>
Liabilities	
Accounts payable and accrued expenses	2,354,618
Unsettled investment purchases	29,008,600
Due to brokers – futures transactions	23,383
Total liabilities	<u>31,386,601</u>
Net position restricted for pension benefits	<u>\$ 10,607,554,492</u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014

Additions	
Contributions	
Employee	\$ 106,175,381
Employer	112,551,482
	<hr/>
Total contributions	218,726,863
	<hr/>
Investment Income	
From investing activities	
Net appreciation in fair value of investments	1,491,542,544
Interest	59,073,636
Dividends	141,733,122
Real estate	43,817,922
	<hr/>
Investment activity income	1,736,167,224
	<hr/>
Less investment activity expenses	(33,653,689)
	<hr/>
Net investment activity income	1,702,513,535
	<hr/>
From security lending activities	
Security lending income	1,045,739
Security lending expenses	(318,450)
	<hr/>
	727,289
	<hr/>
Total additions	1,921,967,687
	<hr/>
Deductions	
Benefits	425,823,928
Refunds of contributions	24,666,785
Administrative expenses	3,857,226
	<hr/>
Total deductions	454,347,939
	<hr/>
Net change in net position	1,467,619,748
Net position restricted for pension benefits:	
Beginning of year, restated	9,139,934,744
	<hr/>
End of year	\$ 10,607,554,492
	<hr/> <hr/>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(1) General Description of the System

The South Dakota Retirement System (SDRS or the System) is a cost-sharing, multiple-employer public employee retirement system (PERS) established to provide retirement benefits for employees of the state of South Dakota (the State) and its political subdivisions. Members of SDRS include full-time employees of public schools, the State, the Board of Regents, city and county governments, and other public entities. Public schools, cities, and counties may choose not to include certain full-time employees in the System.

SDRS is considered a part of the State financial reporting entity and is included in the State's financial report as a pension trust fund. Authority for establishing, administering, and amending plan provisions is found in South Dakota Codified Law (SDCL) 3-12.

The South Dakota Retirement System Board of Trustees (the Board) is the governing authority of SDRS. The Board consists of 14 elected representatives from participating groups, two appointees of the governor, and an ex-officio nonvoting representative of the South Dakota Investment Council. The elected representatives of the Board are two teacher members; two State employee members; a participating municipality member; a participating county member; a participating classified employee member; a current contributing Class B member other than a justice, judge, or magistrate judge; a county commissioner of a participating county; a school district board member, a justice, judge, or magistrate judge, an elected municipal official of a participating municipality; a retiree; and a faculty or administrative member employed by the Board of Regents. The two Governor's appointees consist of one head of a principal department established pursuant to SDCL 1-32-2, or one head of a bureau under the office of executive management and one individual from the private or public sector.

SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions. The system includes three classes of members: Class A-general members, Class B-public safety and judicial members, and Class C Cement Plan retirement Fund members. Members and their employers make matching contributions, which are defined in State statute. SDRS may expend up to 3% of the annual contributions for administrative expenses subject to approval by the executive and legislative branches of the State.

SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of contributory service. Class A members and Class B judicial members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B judicial members where the sum of age and credited service is equal to or greater than 80. Class B public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B public safety members where the sum of age and credited service is equal to or greater than 75. All retirement benefits that do not meet the above criteria may be payable at a reduced level. Class C Cement Plant Retirement members have a normal retirement age of 65 and early retirement is age 55 with the required credited service. Class C provides for disability payments for those disabled on or before March 16, 2001. All participants of the Plan on March 15, 2001 were 100% vested.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) and based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - * 90.0% to 99.9% funded – 2.1% minimum and 2.8% maximum COLA
 - * 80.0% to 90.0% funded – 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% – 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

SDRS is a qualified defined benefit retirement plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes. SDRS last received a favorable determination letter dated July 3, 2012, in which the Internal Revenue Service stated that the System, as then designated, was in compliance with the applicable requirements of the Internal Revenue Code. SDRS believes that the system currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code, and therefore, SDRS continues to be tax-exempt as of June 30, 2014. Therefore, no provision for income taxes has been included in SDRS's financial statements.

SDRS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SDRS participates in the various programs administered by the State. These risk management programs are funded through assessments charged to participating entities. The risk management programs include (1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, (2) coverage of employee medical claims through the State's health insurance program, (3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and (4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

As of June 30, 2014, the number of participating governmental employers is as follows:

School districts	166
State of South Dakota	1
Board of Regents	1
Municipalities	155
Counties	64
Board and Commissions	89
Total employers	<u>476</u>

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

At June 30, 2014, SDRS membership consists of the following:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	22,867
Class B (public safety and judicial employees)	1,450
Class C (cement plant employees)	245
Total retirees and beneficiaries	24,562
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	15,211
Class B (public safety and judicial employees)	712
Class C (cement plant employees)	69
Total terminated members	15,992
Current active members:	
Vested:	
Class A (general employees)	28,237
Class B (public safety and judicial employees)	2,125
Class C (cement plant employees)	22
Nonvested:	
Class A (general employees)	7,868
Class B (public safety and judicial employees)	699
Total current active members	38,951
Grand total	79,505

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The accompanying financial statements are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles applicable to governmental accounting for a pension trust fund. Employee and employer contributions are recognized when due pursuant to formal commitment, as well as statutory requirements. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(b) Method Used to Value Investments

Investments are reported at fair value. The fair value of investments in securities is determined based on last reported prices for those securities traded on national and international stock exchanges. In general, fixed income securities not traded on a national or international exchange are valued based on comparable securities of issuers with similar yield and risk. The value of foreign securities in

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Purchases and sales are recorded as of the trade date.

Alternative investments consist of investments in a variety of markets and industries through partnerships, corporate entities, co-investments, and other investment vehicles. For alternative investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, values these investments in good faith based upon the investment's current financial statements or other information provided by the underlying investment advisor. For all of these alternative investments, SDRS has determined that net asset value reported by the underlying fund approximates the fair value of the investment. These fair value estimates are, by their nature, subjective and based on judgment. These alternative investments were valued at \$3,047,584,045 (28.74% of investments) at June 30, 2014. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

Foreign exchange rate gains and losses are included with the net appreciation in fair value in investments. Futures contracts are marked to market based on quoted futures prices with changes in fair value reflected in the current period.

Interest is accrued in the period in which it is earned and dividend income is recorded on the ex-dividend date.

(c) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and changes therein. Actual results could differ from those estimates.

(d) *New Accounting Pronouncements*

GASB Statement No. 67 which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in the notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension asset. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension asset to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension asset, determined in accordance with GASB No. 67, is presented in Note 4 and in the Required Supplementary Information.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(3) Contributions and Reserves

(a) Contributions

Covered employees are required by statute to contribute a percentage of their salary to SDRS as follows:

Class A members	6.0% of salary
Class B public safety members	8.0% of salary
Class B judicial members	9.0% of salary

All participating employers are required to contribute an amount equal to the members' contributions. Members may make an additional contribution of 1.5% of compensation for optional spouse coverage (closed to new enrollees after July 1, 2010).

SDRS is funded by fixed member and employer contributions at a rate established by South Dakota law. On an annual basis, an independent actuarial valuation of SDRS is performed to determine the adequacy of the fixed contributions to pay the normal costs and expenses if the System is fully funded or pay the normal costs, expenses and amortize the unfunded actuarial accrued liability (UAAL) if the System is not fully funded. The June 30, 2014 actuarial valuation of the plan determined that the System is fully funded and that the statutorily required employer contributions meet the requirements for the annual required contributions of the employers under Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; and the statutorily required employer contributions are sufficient to pay the employer normal cost and expenses. Annual required contributions of the employers equal to the statutorily required contributions have been listed below pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

	Employer	Percentage contributed
Year ending June 30:		
2014	\$ 104,952,985	100%
2013	100,376,481	100
2012	98,866,649	100
2011	98,624,737	100
2010	96,914,192	100

Contributions during fiscal year 2014 totaling \$218,726,863 (\$106,175,381 employee, \$112,551,482 employer, of this, \$7,598,498 was transferred from the general fund to actuarially fund the Cement Plant Retirement Fund) were made in accordance with statutory rates. These contributions represent 12.439% of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up to 10 years. Interest is charged at rates of 5% to 8%. Future payments will be received as follows:

	Employees
Year ending June 30:	
2015	\$ 56,540
2016	29,394
2017	20,634
2018	11,705
2019	3,644
Later	11,643
Deferred contributions receivable at June 30, 2014	\$ 133,560

(b) Reserves

The reserve for funding of long-term benefit goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The reserve for funding of long-term benefit goals is equal to the cumulative amounts credited or debited annually based on the immediate recognition of actuarial investment losses, the five-year recognition of actuarial investment gains and the five-year recognition of SDRS liability gains or losses, less reductions described below. If benefit improvements are enacted into law and funded from the reserve for funding of long-term benefit goals, the reserve for funding of long-term benefit goals is reduced by the present value of all benefits for those improvements. The reserve for funding of long-term benefit goals may also be reduced to offset unfavorable experience or to meet the funding objectives of SDRS as established by the Board of Trustees. As of June 30, 2014, the balance in the reserve for funding of long-term benefit goals is (\$946,419,599). The reserve will increased by net gains of \$1,582 million that will be recognized in the reserve for funding of long-term benefit goals over the next four years.

(4) Net Pension Asset of the System

The components of the net pension asset of the System at June 30, 2014 was as follows:

Total pension liability	\$ 9,887,095,388
Plan fiduciary net position	<u>(10,607,554,492)</u>
Net pension asset	<u>\$ (720,459,104)</u>
Fiduciary net position as a percentage of net pension asset	107.29%

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Discount Rate	7.25% through 2016 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period of July 1 2005 to June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Discount rate – The discount rate used to measure the total pension liability was 7.25% through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of (asset)/liability to changes in the discount rate – The following presents the net pension (asset)/liability of the System, calculated using the discount rate of 7.25% through 2016 and 7.50% thereafter, as well as what the System’s net pension asset would be if it were calculated using a discount rate that is 1% point lower (6.25/6.50%) or 1% point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System’s net pension (asset)/liability	\$ 711,949,105	\$ (720,459,104)	\$ (1,888,737,506)

(5) Cash and Investments

Cash and Deposits

Cash and cash equivalents are held by the State Treasurer and were invested in the State’s pooled investment fund. Investments in the State’s pooled investment fund consist primarily of short-term U.S. Treasury and Agency obligations, short-term US Corporate securities, bank certificates of deposit, and money market funds.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are held in the possession of an outside party. SDRS has a formal deposit policy specific to custodial credit risk and foreign currencies. Policy states that the USD equivalent of any non-USD currency cannot exceed 2.0% of any portfolio on a trade date +7 days basis. All portfolios as of June 30, 2014 meet policy guidelines. These deposits are not collateralized or covered by depository insurance. As a result, \$19,650,852 was exposed to custodial credit risk, which are recorded in investments in the statement of fiduciary net position.

Investments

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	4.7%
International equity	4.7%
Fixed income	1.8%
Real estate	5.5%
Cash	0.8%

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

Below is a detail of the investment balances and amounts managed by the respective fund managers:

	Cost	Fair value
State of South Dakota Investment Council	\$ 5,612,902,682	\$ 7,286,484,708
Sanders Capital	39,636,291	41,216,331
Blackstone Real Estate Partners	840,528,229	1,281,422,344
Rockport RE IV	17,932,084	25,080,513
Starwood RE IX	33,694,272	40,875,107
Cargill North American Real Estate Partners	35,693,429	31,337,742
CINVIN	98,330,996	117,588,712
Pinebridge	6,994,859	5,019,619
CVI Global Value Fund	71,447,826	74,443,559
TCW Opp MBS Strategy	431,479,654	502,630,532
Blackstone Credit Liquidity	2,294,601	532,377
Sanders All Asset Value	18,068,858	22,005,112
Silver Lake Partners LP	112,905,216	149,299,247
KKR Associates	20,751,228	25,494,557
Cypress Merchant Banking Partners LP	5,615,915	6,134,105
Capital International	41,629,225	45,585,552
Apollo	25,497,433	14,698,635
Bridgewater Pure Alpha Fund II	36,742,005	82,115,450
Dimensional Fund Advisors, Inc.	8,977,461	52,706,460
Blackstone Private Equity	187,451,033	298,816,019
Doughty Hanson PE IV	51,736,328	71,043,657
Brandes Global Mid-Cap	56,659,202	61,234,834
Doughty Hanson & Co European Real Estate	36,763,711	28,294,274
CVC	61,800,189	73,850,991
Carlyle	53,619,808	71,669,443
Elevation Partners	8,410,768	8,178,637
Crossroads Investment Advisors LP	3,347,537	3,033,344
Lone Star Real Estate	93,330,118	96,812,103
Riverstone	63,308,088	84,105,942
DLJ Merchant Banking Partners LP	314,196	334,845
Total	\$ 8,077,863,242	\$ 10,602,044,751

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment grade fixed income portfolios of SDRS are benchmarked to the duration of the Citigroup Broad Investment Grade (BIG) Index and must fall between 70% and 130% of the BIGs duration.

The durations of the various investment types are listed in the following table:

	<u>Fair value</u>	<u>Duration (in years)</u>
Investment type:		
U.S. Treasuries	\$ 130,738,600	7.03
U.S. Treasury Bills	76,996,443	0.21
U.S. Treasury strips	45,596,218	9.01
U.S. Treasury Inflation Protected Securities	1,805,936	0.79
U.S. agencies	57,894,912	3.73
U.S. agencies discount notes	18,714,370	0.19
Investment grade corporates	414,336,126	4.27
High-yield corporates	116,596,130	3.64
Agency Mortgage-backed securities	304,450,092	4.70
Non-agency Mortgage-backed securities	466,271,074	0.51
Total	<u>\$1,633,399,901</u>	3.33

The SDRS fixed income portfolios invest in mortgage-backed securities. These securities are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, thereby reducing the value of these securities.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SDRS. SDIC sets the investment policy annually for the SDRS. This policy establishes the average percentage invested in each asset category and the fund allocation range that each asset category can vary during the fiscal year. As of June 30, 2014, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U.S. government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

	<u>Fair value</u>
Moody's rating:	
Aaa	\$ 589,808,339
Aa	75,116,611
A	148,760,957
Baa	203,790,812
Ba	79,187,852
B	93,458,403
Caa	195,394,253
Ca	139,728,870
P-1	18,714,370
Unrated	61,760,065
Total	<u>\$ 1,605,720,532</u>

(c) ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of SDRS's investment in a single issuer. SDRS does not have guidelines to limit its investments in any particular investment. SDRS does not have investments in any one issuer that represent 5% or more of the total fair value of investments as of June 30, 2014 (excluding those issued by or explicitly guaranteed by the U.S. government).

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SDRS's exposure to foreign currency risk derives from its positions in foreign currency and foreign-currency-denominated equity and fixed income investments. SDRS does not hedge foreign currency back to U.S. dollars (to match the unhedged benchmark), but does allow hedging under certain circumstances, when deemed appropriate. The portfolio's exposure to foreign currency risk at June 30, 2014 is as follows (in U.S. dollar fair value):

	<u>Equities</u>	<u>Fixed income</u>	<u>Cash</u>	<u>Total</u>
Currency:				
Australian Dollar	\$ 10,384,926	\$ -	\$ 511,604	\$ 10,896,530
Brazilian Real	2,172,366	-	-	2,172,366
British Pound	336,068,797	-	2,779,865	338,848,662
Canadian Dollar	124,043,377	-	977,443	125,020,820
Danish Krone	7,075,265	-	-	7,075,265
Euro	382,525,869	-	11,269,975	393,795,844
Hong Kong Dollar	3,801,470	-	52,112	3,853,582
Hungarian Forint	1,243,506	-	-	1,243,506
Japanese Yen	171,562,875	-	3,024,921	174,587,796
Korean Won	56,977,408	-	2,114	56,979,522
Russian Ruble	266,266	-	-	266,266
Swedish Krona	1,762,066	-	805,179	2,567,245
Swiss Franc	313,188,037	-	227,639	313,415,676
Turkish Lira	1,084,675	-	-	1,084,675
Total fair value	<u>\$ 1,412,156,903</u>	<u>\$ -</u>	<u>\$ 19,650,852</u>	<u>\$ 1,431,807,755</u>

Investments with limited partnerships and certain global equity investments with external managers, which are not included in the table above, may expose SDRS's portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2014 was \$2,478,675,387. The total fair value of global equity and high-yield fixed income investments managed by external managers was \$157,323,778 and \$74,975,936, respectively.

(e) Return on Investments

During fiscal year 2014, SDRS's investments (including investments bought and sold, as well as held during the year) appreciated in value by \$1,484,679,056.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

Change in Fair Value of Investments

Appreciation in fair value of investments:	
Equities	\$ 703,533,314
Fixed income	31,681,810
Real estate	185,724,570
Private equity	115,619,330
Change in accrued income	520,691
Total increase in fair value	1,037,079,715
Realized gain (loss) on investments:	
Equities	360,596,558
Fixed income	51,452,428
Real estate	86,279,762
Private equity	73,692,700
Total net realized gains	572,021,448
Futures - change in unrealized gain (loss)	(16,389,517)
Futures - Realized gain (loss)	(108,032,590)
Net loss on futures	(124,422,107)
Net appreciation in investments	\$ 1,484,679,056

(f) Securities Lending

State statutes and the SDRS policies permit the use of investments for securities lending transactions. These transactions involve the lending of corporate debt, foreign equity securities, and domestic equity securities to broker-dealers for collateral in the form of securities, with the simultaneous agreement to return the collateral for the same securities in the future. The SDRS's securities custodian is an agent in lending securities and shall accept only U.S. government securities or its agencies as collateral for any loan or loaned securities. The collateral required must equal 102% of fair value plus accrued interest for corporate debt securities, 102% of fair value for U.S. equity securities, and 105% of fair value for foreign securities except in the case of loans of foreign securities, which are denominated and payable in U.S. dollars, in which event the collateral required is 102% of fair value. The earnings generated from the collateral investments result in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

The fair value of securities on loan as of June 30, 2014 was \$68,160,093 and the collateral held on the same date was \$69,847,734. The SDRS has no credit risk exposure to borrowers because the amounts the SDRS owes the borrowers exceed the amounts the borrowers owe the SDRS. The contract with the lending agent requires the agent to indemnify the SDRS if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

All securities loans can be terminated on demand by either the SDRS or the borrower. The SDRS does not have the ability to pledge or sell collateral securities unless the borrower defaults; therefore, no asset and corresponding liability for the collateral value of securities received has been established on the statement of fiduciary net position. Regarding restrictions on loans, the securities lending agreement does limit the total value of securities that can be out on loan on any given day.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(g) Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. SDRS securities lending policies are detailed in the preceding Securities Lending section. As of June 30, 2014, the SDRS does not have custodial credit risk with regard to the security lending collateral.

(6) Derivatives

Derivatives are generally defined as contracts whose values depend on, or derive from, the value of an underlying asset, reference rate, or index. SDRS is exposed to various derivative products through the investment management of the SDIC and its external managers. All of the SDRS's derivatives are classified as investment derivatives.

Futures Contracts

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. The South Dakota Investment Council purchases and sells futures contracts as a means of adjusting the SDRS portfolio mix at a lower transaction cost than the transactions, which would otherwise occur in the underlying portfolios. During fiscal year ended June 30, 2014, S&P 500 futures and 10-year U.S. Treasury note futures were utilized. Upon entering into such a contract, the SDRS pledges to the broker cash or U.S. government securities equal to the minimum initial margin requirement of the futures exchange. Additionally, SDRS receives or pays a daily variation margin, which is an amount of cash equal to the daily fluctuation in value of the contract. The pending variation margin at June 30, 2014 of (\$23,383) is presented in the statement of fiduciary net position as "Due to Broker – Futures Transactions." The change in fair value of the futures contracts is presented in the statement of changes in fiduciary net position as "Net appreciation in fair value of investments." The net change in fair value from futures contracts for fiscal year ended June 30, 2014 was (\$124,422,107).

Futures contract positions at June 30, 2014 were as follows:

<u>Description</u>	<u>Expiration date</u>	<u>Open position</u>	<u>Number of contracts</u>	<u>Notional Contract size</u>	<u>Fair value</u>
U.S. Treasury note	September 2014	Long	2,735	100,000 par value 6%, 10-year U.S. Treasury note	\$ 342,345,078
S&P 500 Index	September 2014	Short	2,900		\$ (1,415,490,000)

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

Foreign Currency Forward Contracts

The SDIC enters into foreign exchange forward contracts for SDRS to manage foreign currency exposure, as permitted by portfolio policies. The fair values of the contracts are presented in the Statement of Net Position as Investments, at fair value – Equities. The change in fair value of the forward contracts is presented in the Statement of Changes in Net Position as “Net appreciation in fair value of investments.” The net change in fair value from foreign currency forward contracts for fiscal year ended June 30, 2014 was \$(402,767). At June 30, 2014, the foreign currency forward contracts outstanding were as follows:

<u>Description</u>	<u>Notional amount</u>	<u>Currency</u>	<u>Value date</u>	<u>Fair value (US dollars)</u>
Forward sale	1,943,536	CHF	7/24/2014	\$ 6,289
Forward sale	19,770,519	CHF	8/5/2014	190,356
Forward sale	18,500,000	EUR	9/22/2014	(215,691)
Forward purchase	129,400,000	CNY	7/24/2014	1,011,559
Forward purchase	128,050,000	CNY	7/28/2014	789,544
Forward purchase	150,250,000	CNY	3/30/2015	(807,190)
Forward purchase	117,237,600	CNY	9/10/2015	789,640
Forward purchase	158,375,000	CNY	11/30/2016	46,713

(a) Credit Risk

SDRS is exposed to credit risk on derivative instruments that are in asset positions. The SDIC attempts to minimize credit risk by entering into derivatives contracts with major financial institutions. At June 30, 2014, the net fair value of foreign currency forward contracts was \$2,834,102. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The credit ratings of the counterparties are as follows:

	<u>Number of counterparties</u>	<u>Fair value</u>
Moody’s credit rating: A1	1	\$ 2,834,102

(b) Foreign Currency Risk

SDRS is exposed to foreign currency risk on its foreign currency forward contracts because they are denominated in foreign currencies. The net fair value of the foreign currency forward contracts in U.S. dollars is \$1,811,220.

(7) Compensated Absences

Annual leave is earned by all SDRS employees. Upon termination, SDRS employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2014, a liability existed for accumulated annual leave calculated at the employees’ June 30, 2014 pay rate in the amount of \$123,306. Employees who have been continuously employed by SDRS and the State for at least seven years prior to the date of

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

their retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance with such payment not to exceed the sum of 12 weeks of the employee’s annual compensation. For employees who have not been employed for seven continuous years, an accrued liability is calculated assuming the likelihood that they will meet the seven-year threshold in the future. At June 30, 2014, a liability existed for accumulated and accrued sick leave calculated at the employees’ June 30, 2014 pay rate in the amount of \$143,858.

	2014	2013	Percentage change
Total compensated absences	\$ 267,164	\$ 295,523	-9.60%

The total leave liability for the current year is on the statement of net position available for benefits in accounts payable and accrued expenses.

(8) Operating Leases

The SDRS has entered into an agreement to lease office space effective September 2012 and has a term of ten years. A schedule of minimum office rental payments as of June 30, 2014, is as follows for the fiscal year ending June 30:

2015	\$	104,471
2016		104,471
2017		104,471
2018		104,471
2019		104,471
Thereafter		313,413
Total remaining minimum payments	\$	835,768

(9) Supplemental Retirement Plan

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the SRP, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are at all times held in trust for the exclusive benefit of the participants until made available to a participant or the participant’s beneficiary.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

Of the \$253,327,075 net position restricted for plan benefits at June 30, 2014, \$155,535,562 was held in trust for employees of the State, while the remaining \$97,791,513 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$1,033,487 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2014.

(10) Special Pay Plan

The Special Pay Plan (SPP) was established in July 2004 as a qualified plan pursuant to Internal Revenue Code Section 401(a) under the administrative responsibility of the SDRS Board of Trustees. South Dakota state government and the South Dakota Board of Regents are participating units and every state political subdivision may become a participating unit in the plan. The SPP mandates that qualifying employees (over age 55 and \$600 or more in special pay) of participating units defer 100% of their special lump-sum termination pay to the plan. The participating unit transfers the deferred pay to the fund. This deferred pay is available to a participant immediately after termination, upon later retirement, or to beneficiaries or an estate upon the participant's death.

Of the \$36,528,363 net position restricted for plan benefits at June 30, 2014, \$20,656,279 was held in trust for employees of the State, while the remaining \$15,872,084 represents the assets held in trust for employees of other jurisdictions.

(11) Plan Termination

SDRS is administered in accordance with South Dakota statutes. The statutes provide for full vesting in accrued benefits upon termination of the plan (SDCL 3-12-72.2).

(12) Commitments

At June 30, 2014, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$504,214,950 and to real estate limited partnerships totaling approximately \$443,725,297. The commitments may be called at the discretion of the general partner or may never be called.

(13) Litigation

Deutsche Bank and Wilmington Trust Company have filed a number of actions around the country against selling shareholders, and those actions are all now consolidated in a Multi District Panel proceeding in the Southern District of New York (In re: Tribune Company Fraudulent Conveyance Litigation, Case No. 11-MD-2296). A separate adversary proceeding which was pending in Delaware has been consolidated into this action as well (The Official Committee of Unsecured Creditors of Tribune Company, on behalf of Tribune Company v. Dennis J. Fitzsimmons, et al., Case No. 1:12-cv-02652). SDRS is a defendant as a result of selling Tribune Stock in connection with a leveraged buyout of the Tribune Company in 2007. Through this lawsuit the creditors of Tribune Company are attempting to claw-back funds received in connection with the sale of the stock, which, in the case of SDRS, is approximately four million dollars. SDRS contends that it has persuasive arguments favoring dismissal and its counsel is vigorously working on this. The pending legal action does not represent an immediate negative contingency.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(14) Assets Used in Plan Operations

These assets represent computer software development costs used by the System and are recorded at cost. Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of computer software development costs is 10-15 years.

	2014
Computer software development in progress	\$ 328,663
Less accumulated amortization	13,728
Total computer software development	\$ 314,935

In March 2014, development began on the South Dakota Retirement System (RETAPP) system. Costs of the RETAPP system will begin to be capitalized and amortized once the application development phase is completed. The balance on contracts pertaining to the completion of the RETAPP project at June 30, 2014 was \$1.2 million.

(15) Cement Plant Retirement Fund Merger

Under SDCL 3-12-218, the Cement Plant Retirement Fund was approved to be merged in with SDRS. All members of the Cement Plant Retirement Fund (the Cement Plant), including any retiree and any vested member, became class C members of the South Dakota Retirement System on April 1, 2014. The system will continue to provide the same benefits for the class C members as what they previously received.

For this merger to be accomplished, the South Dakota Legislature made an appropriation of \$5.6 million to actuarially fully fund the Cement Plant Retirement Fund. Once the Cement Plant Retirement Fund was fully funded, the merger was accomplished with a transfer of cash and investments of \$66,451,940 from the Cement Plant Retirement Fund to the South Dakota Retirement Fund. The South Dakota Retirement System is now responsible for the administration of the Cement Plant Retirement Fund and its 336 active, inactive and retiree members. As a result of the transfer, SDRS recognized the following assets, liabilities, and net position as of June 30, 2013:

Transferred Assets (Net)	Carrying values
Cash and cash equivalents	\$2,938,366
Receivables	364,213
Investments (fair value)	51,216,333
Total assets	54,518,912
Transferred Liabilities	290,876
Net Position of Transferred Cement Plant Operation	
Net position restricted for pension benefits	\$54,228,036

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2014

(16) Early Implementation

During the year ended June 30, 2014, SDRS early implemented GASB 69, *Government Combinations and Disposals of Government Operations* to account for the transaction described in Note 15. As a result of this accounting principal, the net position as of June 30, 2013 has been updated as required by GASB 69 to account for the merger. The financial statements include all activity for the Cement Plant for the current year within the SDRS financial reports.

Net Position, Beginning of Year – As Previously Stated	\$ 9,085,706,708
Plus adjustment to incorporate the Cement Plant Retirement Fund assets as of June 30, 2013	<u>54,228,036</u>
Net Position, Beginning of Year – As Restated	<u>\$ 9,139,934,744</u>



Required Supplementary Information
June 30, 2014

South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM
Schedules of Required Supplementary Information

June 30, 2014

SCHEDULE OF CHANGES IN THE SYSTEM'S NET PENSION ASSET

Last Fiscal Year

	2014
Total pension liability	
Service cost	\$ 161,697,696
Interest	633,951,211
Changes in benefit terms	(5,082,771)
Differences between expected and actual experience	78,328,269
Changes of assumptions	604,281,184
Cement plant consolidation	60,649,185
Benefit payments, including refunds	(450,490,712)
Net change in total pension liability	1,083,334,062
Total pension liability - beginning	8,803,761,326
Total pension liability - ending	9,887,095,388
 Plan fiduciary net position	
Contributions - employer	104,952,985
Contributions - member	106,175,381
Net investment income	1,695,543,796
Benefit payments, including refunds	(450,490,712)
Administrative expense	(3,853,073)
Cement plant consolidation	69,519,407
Net change in plan fiduciary net position	1,521,847,784
Plan fiduciary net position - beginning	9,085,706,708
Plan fiduciary net position - ending	\$ 10,607,554,492
 System's net pension liability(asset) - ending	\$ (720,459,104)

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years in which information is available.

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM
Schedules of Required Supplementary Information

June 30, 2014

SCHEDULE OF SYSTEM'S NET PENSION ASSET

Last Fiscal Year

	2014
Total pension liability	\$ 9,887,095,388
Plan fiduciary net position	10,607,554,492
System's net pension liability (asset)	<u>\$ (720,459,104)</u>
Plan fiduciary net position as a percentage of the total pension liability	107.29%
Actuarial projected covered-employee payroll	1,685,627,785
System's net pension liability (asset) as a percentage of covered-employee payroll	-42.741%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years in which information is available.

SCHEDULE OF SYSTEM'S CONTRIBUTIONS

Last Fiscal Year

	2014
Actuarially determined contribution	\$ 172,001,459
Contributions in relation to the actuarially determined contribution	209,678,082
Contribution deficiency (excess)	<u>\$ (37,676,623)</u>
Reported covered-employee payroll	1,685,627,785
Contributions as a percentage of covered-employee payroll	12.439%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years in which information is available.

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM
Schedules of Required Supplementary Information

June 30, 2014

SCHEDULE OF INVESTMENT RETURNS
Last Fiscal Year

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual money-weighted rate or return, net of investment expenses	18.91%	19.01%	1.37%	25.27%	18.20%	-21.05%	-8.93%	21.07%	12.86%	13.12%
Annual time-weighted rate or return, net of investment expenses	18.90%	19.02%	1.45%	25.18%	17.99%	-20.89%	-9.00%	21.06%	12.85%	13.12%

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Schedule of Required Supplementary Information

June 30, 2014

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of System's contributions are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Authorization method	Level percentage of pay
Remaining amortization period	0 Years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25% through 2016 and 7.5% thereafter
Projected salary increases	5.83% at entry to 3.87% after 30 years of service
Post-retirement mortality table:	
Active Members	RP-2000 Employee Mortality Table projected generationally with Scale BB, with males adjusted by 85% and females by 48%.
Healthy inactive members, retired members and beneficiaries:	RP-2000 Combined Healthy Mortality Table projected generationally with Scale BB, with males adjusted by 91% and females by 90%.
Disabled inactive and retired members:	RP-2000 Disabled Retiree Mortality Table projected generationally with Scale BB.



Other Supplementary Information
June 30, 2014

South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM

Schedule of Administrative Expenses

Year Ended June 30, 2014

Personal services:	
Salary and per diem	\$ 1,630,554
Employee benefits	<u>508,106</u>
Total personal services	<u>2,138,660</u>
Operating expenses:	
Travel	<u>60,881</u>
Contractual services:	
Audit	93,250
Finance	16,771
Valuations	87,000
Consulting	228,816
Studies	24,292
Special studies	49,822
Legal	17,686
Communications	40,000
Medical	125
Operations	<u>777,540</u>
Total contractual services	<u>1,335,302</u>
Supplies and materials	291,941
Capital assets	<u>30,442</u>
Total operating expenses	<u>1,718,566</u>
Total administrative expenses	<u><u>\$ 3,857,226</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM

Schedule of Investment Activity Expenses

Year Ended June 30, 2014

Investment managers	
State of South Dakota Investment Council	\$ 7,460,132
Apollo	338,677
Blackstone Credit Liquidity	7,640
Blackstone Private Equity	118,040
Blackstone Real Estate Partners	1,692,785
Brandes Global Mid-Cap	241,660
Capital International	1,184,753
Cargill North American Real Estate Partners	312,650
Carlyle	1,664,706
CINVIN	2,564,000
Crossroads Investment Advisors LP	83,019
CVC	451,264
CVI	1,104,998
Cypress Merchant Banking Partners LP	44
Dimensional Fund Advisors, Inc.	211,463
Doughty Hanson & Co European Real Estate	1,138,484
Doughty Hanson PE IV	511,240
Elevation Partners	134,292
GE Asset Management China	1,426,395
GE Asset Management Commodities	1,427
KKR Associates	(110,747)
Lone Star Real Estate	3,101,093
PIMCO Distressed Mtg Fund II	1,866
Riverstone	1,383,022
Rockport RE IV	1,664,098
Sanders All Asset Value	516,723
Sanders Capital	245,204
Silver Lake Partners LP	3,223,879
Starwood RE IX	679,164
TCW Opp MBS Strategy	2,301,418
	<hr/>
Total investment activity expenses	\$ 33,653,389
	<hr/> <hr/>



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Retirement System (SDRS), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SDRS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SDRS's internal control. Accordingly, we do not express an opinion on the effectiveness of the SDRS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SDRS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
November 25, 2014



Financial Statements
June 30, 2014

South Dakota Retirement System Supplemental Retirement Plan



Independent Auditor's Report

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Retirement System Supplemental Retirement Plan (the Plan), which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective statement of fiduciary net position of the South Dakota Retirement System Supplemental Retirement Plan, as of June 30, 2014, and the respective statement of changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 39-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Plan's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

November 25, 2014
Boise, Idaho

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2014

This section presents management's discussion and analysis of the South Dakota Retirement System Supplemental Retirement Plan's (SRP or the Plan) financial position and performance for the year ended June 30, 2014. This section is intended to supplement the SRP financial statements.

Financial Highlights

- The net position available for plan benefits of the SRP increased by \$43.8 million during fiscal year 2014. This increase was primarily attributable to investment gains during the year and contributions outweighing distributions to participants.
- The SRP paid \$10.1 million to benefit recipients in fiscal year 2014 compared to \$7.7 million in 2013. The SRP received \$20.0 million in contributions in fiscal year 2014 compared to \$17.2 million in 2013.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The Plan presents the statement of fiduciary net position as of June 30, 2014, and the statement of changes in fiduciary net position for the year then ended. These statements reflect resources available for the payment of benefits as of year-end and sources and uses of those funds during the year.

Notes to Financial Statements

The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules.

Financial Analysis

The SRP was established in accordance with Internal Revenue Code Section 457 and under the administrative responsibility of the South Dakota Retirement System Board of Trustees. The Plan is funded by participant contributions and investment income. Marketing and record-keeping services for the Plan are provided by Nationwide Retirement Solutions, Inc.

SRP benefits are based on the participant balances in the Plan.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2014

A summary of the net position held in trust for plan benefits is shown below:

Summary of Fiduciary Net Position

June 30, 2014 and 2013

	2014	2013
Assets:		
Investments, at fair value	\$ 252,393,986	\$ 208,857,131
Cash	273,916	184,365
Revenue sharing receivable	179,128	164,596
Accrued interest	2,663	4,021
Contributions receivable	516,130	357,000
Total assets	253,365,823	209,567,113
Liabilities:		
Accounts payable	38,748	23,853
Net position held in trust for plan benefits	\$ 253,327,075	\$ 209,543,260

Change in Fiduciary Net Position

Additions to the net position include contributions and net investment income. Deductions from net position are primarily benefit payments. During 2014, SRP paid \$10.1 million to benefit recipients, or 30.75% more than 2013.

A summary of the changes in fiduciary net position is shown below:

	2014	2013	Change
Additions:			
Contributions-employee	\$ 20,020,255	\$ 17,181,701	16.52%
Investment income	34,374,785	22,763,597	51.01%
Other income	14,533	39,446	-63.16%
Total additions	54,409,573	39,984,744	36.08%
Deductions:			
Distributions to participants	10,132,777	7,749,678	30.75%
Administrative expenses	492,981	393,583	25.25%
Total deductions	10,625,758	8,143,261	30.49%
Net change in net position	43,783,815	31,841,483	37.51%
Net position held in trust for plan benefits:			
Beginning of year	209,543,260	177,701,777	17.92%
End of year	\$ 253,327,075	\$ 209,543,260	20.89%

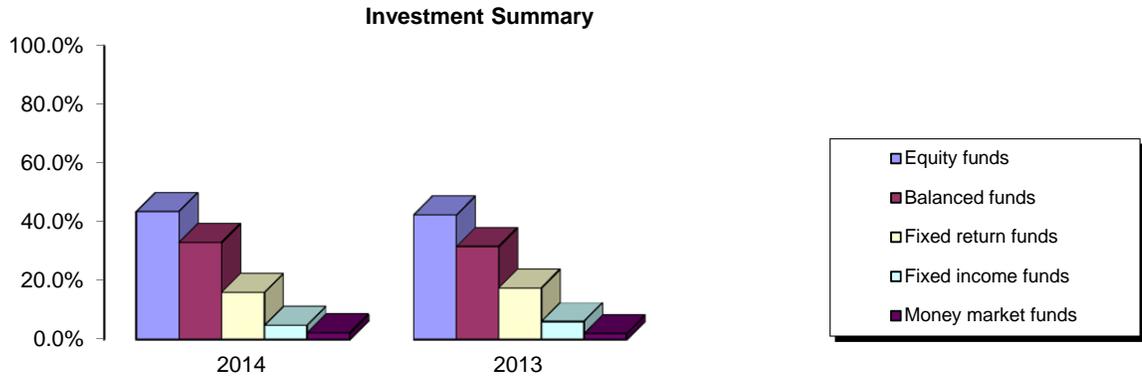
SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2014

Investments

The selection of SRP investment portfolio alternatives is the statutory responsibility of the South Dakota Investment Officer. The following exhibit indicates the percentage of investment in each of the SRP fund types.



Requests for Information

Requests for information about the SRP may be directed to the Supplemental Retirement Plan at 207 East Capitol Avenue, P.O. Box 944, Pierre, SD 57501. You may reach the SRP at (605) 224-2230, 1 (800) 959-4457, or online at www.srp457.com. You may link to the SRP Web site from the SDRS Web site at www.state.sd.us/sdrs/.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Statement of Fiduciary Net Position

June 30, 2014

Assets:

Investments, at fair value:

Equity funds	\$ 110,034,841
Balanced funds	83,599,796
Fixed return funds	40,782,987
Fixed income funds	12,223,582
Money market funds	<u>5,752,780</u>

Total investments, at fair value 252,393,986

Cash 273,916

Revenue sharing receivable 179,128

Accrued interest 2,663

Contributions receivable 516,130

Total assets 253,365,823

Liabilities:

Accounts payable 38,748

Plan net position held in trust for plan benefits \$ 253,327,075

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014

Additions:	
Contributions-employee	\$ 20,020,255
Investment income	34,374,785
Other income	<u>14,533</u>
Total additions	<u>54,409,573</u>
Deductions:	
Distributions to participants	10,132,777
Administrative expenses	<u>492,981</u>
Total deductions	<u>10,625,758</u>
Net increase in plan net position	43,783,815
Plan net position held in trust for plan benefits	
Beginning of year	<u>209,543,260</u>
End of year	<u>\$ 253,327,075</u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2014

(1) Plan Description

The following description of the South Dakota Retirement System Supplemental Retirement Plan (the Plan) provides only general information. Participants should refer to the plan provisions for a more complete description of the Plan.

(a) General

The Plan was established in July 1987 in accordance with Internal Revenue Code Section 457 under the administrative responsibility of the South Dakota Retirement System Board of Trustees. The state of South Dakota is a participating unit and every political subdivision thereof may become a participating unit in the Plan. The Plan consists of 14,453 participants and 294 employers. The Plan permits employees of participating units to defer a portion of their salary until future years. The deferred compensation is not available to the participants until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights held by the fund, at all times until made available to a participant or the participant's beneficiary, shall be held in trust for the exclusive benefit of the participant.

(b) Contributions

Participants of the Plan may contribute an amount of not less than \$25 per month and not in excess of \$17,500 for calendar year 2014 or 100% of includable compensation. A participant may make a one-time election to defer an additional amount of twice the otherwise applicable limit during any of the three calendar years immediately preceding a participant's elected normal retirement age. If age 50 or over, participants may also defer additional contributions of \$5,500.

(c) Participant's Account

Each participant's account is credited with the participant's contributions, an allocation of the investment earnings or losses, and administrative expenses. Allocations are made based on the participant's percentage of the total investment balance. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

(d) Distribution to Participants

Distributions of benefits to participants can be made upon termination, retirement, death, or unforeseeable emergency. Distributions are in the form of a lump-sum payment in cash equal to the value of the funds allocated to their account or installments, as defined in the plan agreement.

(e) Vesting

Participants are vested immediately in their contributions plus actual earnings thereon.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2014

(f) *Risks and Uncertainties*

The Plan invests in various investment securities. These securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of fiduciary net position.

(2) *Summary of Significant Accounting Policies*

(a) *Basis of Accounting*

The accompanying financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned and expenses recorded when incurred. Employee contributions are recognized when due pursuant to formal commitment, as well as statutory requirements. Distributions to participants are recognized when paid in accordance with the terms of the Plan.

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(3) *Investments*

Investments are carried at fair value based upon quoted market prices at June 30, 2014, as available. Fair value for the mutual funds is determined based on the value of the underlying assets in the portfolio. Fixed return funds are carried at contract value, which approximates fair value.

Money market funds invest in short-term, interest-bearing instruments consisting of Treasury Bills, certificates of deposit, and commercial paper. Fixed income funds invest in interest-bearing instruments with varying maturities, including government or corporate bonds, notes, bills, and debentures. Equity funds invest in common and preferred stock and convertible securities of United States and foreign corporations. Balanced funds are invested in a combination of short-term, fixed income, and equity instruments. Fixed return funds are invested in an insurance company group annuity.

The interest rate on fixed return funds is set each quarter and guaranteed for up to two years. These funds are subject to certain restrictions. No more than 20% of the beginning of the year aggregate fixed return fund balance may be transferred annually to another investment alternative.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2014

Changes in fiduciary net position for the year ended June 30, 2014 by investment alternatives available to participants were as follows:

	Beginning balance	Contributions	Investment Income	Additions/ Deductions	Ending balance	Market value as a percentage of plan assets
Money Market						
Vanguard Prime Reserve	\$ 4,317,693	\$ 394,988	\$ 781	\$ 1,039,318	\$ 5,752,780	2.27%
Fixed Return:						
Prudential	36,656,941	3,626,357	1,160,884	(661,195)	40,782,987	16.10%
Fixed Income						
Vanguard Bond Market	12,870,480	619,590	508,414	(1,774,902)	12,223,582	4.83%
Balanced						
Vanguard Target Ret Inc Fund	5,451,035	80,632	519,206	(420,058)	5,630,815	2.22%
Vanguard Target Ret 2010 Fund	6,658,607	209,356	749,128	(741,276)	6,875,815	2.71%
Vanguard Target Ret 2015 Fund	14,390,553	1,310,279	2,091,037	(998,542)	16,793,327	6.63%
Vanguard Target Ret 2020 Fund	14,931,782	1,938,210	2,502,839	(884,948)	18,487,883	7.30%
Vanguard Target Ret 2025 Fund	9,145,897	1,709,972	1,739,736	(255,662)	12,339,943	4.87%
Vanguard Target Ret 2030 Fund	6,453,848	1,094,527	1,347,537	83,125	8,979,037	3.54%
Vanguard Target Ret 2035 Fund	3,314,648	863,550	762,426	(9,689)	4,930,935	1.95%
Vanguard Target Ret 2040 Fund	2,069,428	778,148	527,276	(15,676)	3,359,176	1.33%
Vanguard Target Ret 2045 Fund	1,740,930	602,202	429,178	(74,841)	2,697,469	1.06%
Vanguard Target Ret 2050 Fund	2,025,786	691,951	489,661	(245,206)	2,962,192	1.17%
Vanguard Target Ret 2055 Fund	140,307	248,633	53,713	30,058	472,711	0.19%
Vanguard Target Ret 2060 Fund	11,011	22,645	5,946	30,891	70,493	0.03%
Total Balanced	66,333,832	9,550,105	11,217,683	(3,501,824)	83,599,796	33.00%
Equity						
Mutual Shares	13,857,827	504,360	3,136,495	(882,354)	16,616,328	6.56%
Windsor II Admiral	21,965,177	817,021	4,889,122	(1,719,165)	25,952,155	10.24%
Vanguard Instit Index	23,420,130	1,115,189	5,632,706	(2,354,102)	27,813,923	10.98%
Vanguard Tot Intl Stock Ind	7,598,974	428,204	1,654,848	(1,158,882)	8,523,144	3.36%
Dodge Cox Global Stock	502,106	95,009	180,983	191,812	969,910	0.38%
Dodge & Cox Int Stock Fnd	1,620,668	194,139	472,369	(119,606)	2,167,570	0.86%
Growth Fund of America	4,981,379	598,340	1,377,467	(215,954)	6,741,232	2.66%
Capital World Grth & Inc	2,709,610	330,499	685,657	(86,260)	3,639,506	1.44%
Vanguard Small Cap Index	261,890	255,383	120,375	247,913	885,561	0.35%
Vanguard Ext Mkt Idx Inst	8,865,736	661,255	2,401,400	(393,061)	11,535,330	4.55%
Vanguard Wlsly Inc Adml	532,687	215,321	118,586	801,809	1,668,403	0.66%
Vanguard Strategic Equity	2,362,001	381,027	814,352	(35,601)	3,521,779	1.39%
Total Equity	88,678,185	5,595,747	21,484,360	(5,723,451)	110,034,841	43.44%
Total Investments	208,857,131	19,786,787	34,372,122	(10,622,054)	252,393,986	99.63%
Other Assets	686,129	233,468	13,492	-	933,089	0.37%
Net position held in trust for plan benefits	\$ 209,543,260	\$ 20,020,255	\$ 34,385,614	\$ (10,622,054)	\$ 253,327,075	100.00%

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2014

(4) Plan Administration

Nationwide Retirement Solutions, Inc. (NRS) of Columbus, Ohio, is the private sector administrator and marketing agent of the Plan. NRS provides various accounting, reporting, and marketing services and receives compensation through maintenance and asset fees charged against each participant account.

(5) Federal Income Tax Status

The Plan is an eligible nonqualified deferred compensation plan under Section 457(a) of the Internal Revenue Code and is exempt from federal income taxes. The Plan has received a favorable determination letter dated September 15, 1988. The Plan has been amended since receiving the determination letter. However, the plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

(6) Plan Termination

Although they have not expressed any intent to do so, the South Dakota Retirement Board of Trustees and the South Dakota Legislature have the right to terminate the Plan. In the event of plan termination, participants continue to be 100% vested in their account balances.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Retirement System Supplemental Retirement Plan (SRP), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SRP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SRP's internal control. Accordingly, we do not express an opinion on the effectiveness of the SRP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SRP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
November 25, 2014



Financial Statements
June 30, 2014

South Dakota Retirement System Special Pay Plan



Independent Auditor's Report

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Retirement System Special Pay Plan (SPP or the Plan), which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective statement of fiduciary net position of the South Dakota Retirement System Special Pay Plan, as of June 30, 2014, and the respective statement of changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 52-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Plan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

November 25, 2014
Boise, Idaho

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2014

This section presents management's discussion and analysis of the South Dakota Retirement System Special Pay Plan's (SPP or the Plan) financial position and performance for the year ended June 30, 2014. This section is intended to supplement the SPP financial statements and notes.

Financial Highlights

- The net position available for plan benefits of the SPP increased by \$4.9 million during fiscal year 2014. This increase was primarily attributable to additional participant contributions and investment gains.
- The SPP paid \$5.5 million to benefit recipients in fiscal year 2014 compared to \$4.5 million in 2013. The SPP received \$8.8 million in contributions in fiscal year 2014 compared to \$7.2 million in 2013.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The Plan presents the statement of fiduciary net position as of June 30, 2014, and the statement of changes in fiduciary net position for the year then ended. These statements reflect resources available for the payment of benefits as of year-end and sources and uses of those funds during the year.

Notes to Financial Statements

The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules.

Financial Analysis

The SPP was established in accordance with Internal Revenue Code Section 401 and under the administrative responsibility of the South Dakota Retirement System Board of Trustees. The Plan is funded by participant contributions and investment income. Marketing and record-keeping services for the Plan are provided by Nationwide Retirement Solutions, Inc.

SPP benefits are based on the participant balances in the Plan.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2014

A summary of the net position held in trust for plan benefits is shown below:

Summary of Fiduciary Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Investments, at fair value	\$ 36,180,173	\$ 31,353,528
Cash	95,613	82,733
Revenue sharing receivable	3,333	4,859
Accrued interest	165	199
Contributions receivable	<u>268,051</u>	<u>238,732</u>
Total assets	<u>36,547,335</u>	<u>31,680,051</u>
Liabilities:		
Accounts payable	<u>18,972</u>	<u>11,305</u>
 Plan net position held in trust for plan benefits	 <u><u>\$ 36,528,363</u></u>	 <u><u>\$ 31,668,746</u></u>

Changes in Fiduciary net position

Additions to the net position mainly were due to contributions during the year. Deductions from net position are primarily benefit payments and administrative expenses. During 2014, SPP paid \$5.5 million to benefit recipients, or 23.01% more than 2013.

A summary of the changes in fiduciary net position is shown below:

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

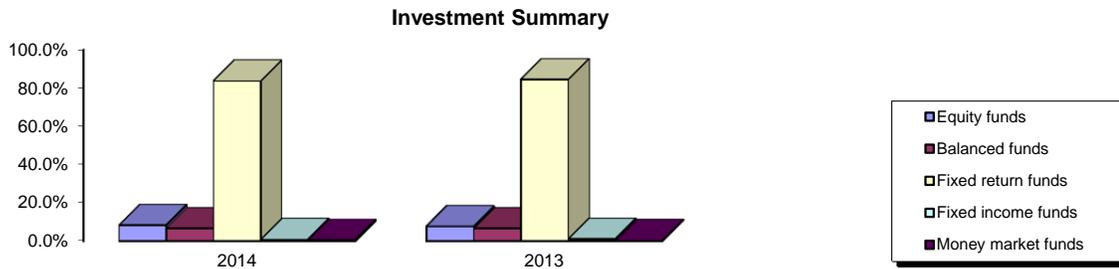
Management's Discussion and Analysis

June 30, 2014

	2014	2013	Percentage Change
Additions:			
Contributions-employee	\$ 8,790,758	\$ 7,232,301	21.55%
Investment income	1,662,636	1,225,501	35.67%
Other income	31,054	29,442	5.48%
Total additions	10,484,448	8,487,244	23.53%
Deductions:			
Distributions to participants	5,541,598	4,504,932	23.01%
Administrative expenses	83,233	75,606	10.09%
Total deductions	5,624,831	4,580,538	22.80%
Net change in plan net position	4,859,617	3,906,706	24.39%
Plan net position held in trust for plan benefits:			
Beginning of year	31,668,746	27,762,040	14.07%
End of year	<u>\$ 36,528,363</u>	<u>\$ 31,668,746</u>	15.35%

Investments

The selection of SPP investment portfolios alternatives is the statutory responsibility of the South Dakota Investment Officer. The following exhibit indicates the percentage of investment in each of the SPP fund types.



Requests for Information

Requests for information about the SPP may be directed to the Special Pay Plan at 207 East Capitol Avenue, P.O. Box 944, Pierre, SD 57501. You may reach the SPP at (605) 224-2230 or 1 (800) 959-4457.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Statement of Fiduciary Net Position

June 30, 2014

Assets:

Investments, at fair value:

Equity funds	\$ 2,977,021
Balanced funds	2,335,182
Fixed return funds	30,476,672
Fixed income funds	243,690
Money market funds	<u>147,608</u>

Total investments, at fair value 36,180,173

Cash 95,613

Revenue sharing receivable 3,333

Accrued interest 165

Contributions receivable 268,051

Total assets 36,547,335

Liabilities:

Accounts payable 18,972

Net position held in trust for plan benefits \$ 36,528,363

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014

Additions:

Contributions-employee	\$ 8,790,758
Investment income	1,662,636
Revenue sharing	(1,526)
Other income	<u>32,580</u>

Total additions 10,484,448

Deductions:

Distributions to participants	5,541,598
Administrative expenses	<u>83,233</u>

Total deductions 5,624,831

Net change in net position 4,859,617

Net position held in trust for plan benefits:

Beginning of year 31,668,746

End of year \$ 36,528,363

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2014

(1) Plan Description

The following description of the South Dakota Retirement System Special Pay Plan (the Plan) provides only general information. Participants should refer to the plan provisions for a more complete description of the Plan.

(a) *General*

The Plan was established in July 2004 as a qualified plan pursuant to Internal Revenue Code Section 401(a) under the administrative responsibility of the South Dakota Retirement System Board of Trustees. South Dakota state government and the South Dakota Board of Regents are participating units and every state political subdivision may become a participating unit in the Plan. The Plan consists of 2,328 participants and 116 employers. The Plan mandates that qualifying employees (over age 55 and \$600 or more in special pay) of participating units defer 100% of their special lump-sum termination pay to the plan. Special pay is compensation other than regular salary or wages granted to a member of the South Dakota Retirement System and transferred in a sum to the Plan at termination of the member's employment. The participating unit transfers the deferred pay to the fund. This deferred pay is available to a participant immediately after termination, upon later retirement, or to beneficiaries or an estate upon the participant's death.

All amounts of special termination pay deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights held by the fund, at all times until made available to a participant or the participant's beneficiary for estate, shall be held in trust for the exclusive benefit of the participant.

(b) *Contributions*

Participants in the Plan can contribute the lesser of 100% of their one-time, lump-sum special pay associated with their termination or \$52,000 for calendar year 2014.

(c) *Participant's Account*

Each participant's account is credited with the participant's contribution, an allocation of the investment earnings or losses, and administrative expenses. Allocations are made based on the participant's percentage of the total investment balance. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

(d) *Distribution to Participants*

Distributions of benefits to participants can be made immediately after the participant's termination, or upon the participant's retirement, or to a beneficiary or an estate upon the participant's death. Distributions are in the form of a lump-sum payment in cash equal to the value of the funds allocated to their account or in the form of installments as defined in the plan agreement.

(e) *Risks and Uncertainties*

The Plan invests in various investment securities. These securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2014

investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of fiduciary net position.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned and expenses recorded when incurred. Employee contributions are recognized when due pursuant to formal commitment, as well as statutory requirements. Distributions to participants are recognized when paid in accordance with the terms of the Plan.

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(3) Investments

Investments are carried at fair value based upon quoted market prices at June 30, 2014, as available. Fair value for the mutual funds is determined based on the value of the underlying assets in the portfolio. Fixed return funds are carried at contract value, which approximates fair value.

Money market funds invest in short-term, interest-bearing instruments consisting of Treasury Bills, certificates of deposit, and commercial paper. Fixed income funds invest in interest-bearing instruments with varying maturities, including government or corporate bonds, notes, bills, and debentures. Equity funds invest in common and preferred stock and convertible securities of United States and foreign corporations. Balanced funds are invested in a combination of short-term, fixed income, and equity instruments. Fixed return funds are invested in an insurance company group annuity.

The interest rate on fixed return funds is set each quarter and guaranteed for up to two years. These funds are subject to certain restrictions. No more than 20% of the beginning of the year aggregate fixed return fund balance may be transferred annually to another investment alternative.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2014

Changes in fiduciary net position for the year ended June 30, 2014 by investment alternatives available to participants were as follows:

	Beginning balance	Contributions	Investment Income	Additions/ Deductions	Ending balance	Market value as a percentage of plan assets
Money Market						
Vanguard Prime Reserve	\$ 106,978	\$ -	\$ 23	\$ 40,607	\$ 147,608	0.40%
Fixed Return:						
Prudential	26,445,564	8,739,088	785,174	(5,493,154)	30,476,672	83.43%
Fixed Income						
Vanguard Bond Market	329,921	-	10,890	(97,121)	243,690	0.67%
Balanced						
Vanguard Target Ret Inc Fund	256,176	-	25,732	8,530	290,438	0.80%
Vanguard Target Ret 2010 Fund	703,464	-	81,779	123	785,366	2.15%
Vanguard Target Ret 2015 Fund	983,355	-	140,748	(28,874)	1,095,229	3.00%
Vanguard Target Ret 2020 Fund	94,163	6,794	15,359	(6,603)	109,713	0.30%
Vanguard Target Ret 2025 Fund	39,784	-	7,158	(92)	46,850	0.13%
Vanguard Target Ret 2030 Fund	5,605	-	1,092	(13)	6,684	0.02%
Vanguard Target Ret 2045 Fund	-	-	770	(770)	-	0.00%
Vanguard Target Ret 2050 Fund	740	-	164	(2)	902	0.00%
Vanguard Target Ret 2055 Fund	-	-	772	(772)	-	0.00%
Vanguard Target Ret 2060 Fund	-	-	1,221	(1,221)	-	0.00%
Total Balanced	2,083,287	6,794	274,795	(29,694)	2,335,182	6.39%
Equity						
Dodge and Cox Int Stock Fd	83,163	3,649	25,120	3,406	115,338	0.32%
DodgeCox Global Stock	8,469	-	16,924	64,728	90,121	0.25%
Am Funds Capital	164,073	-	26,832	(70,478)	120,427	0.33%
World Grth & Inc						
Vanguard Ext Mkt Ind Inst	335,306	-	87,294	(18,887)	403,713	1.11%
Growth Fund of America	328,392	-	96,728	75,352	500,472	1.37%
Mutual Shares	388,231	-	85,088	(43,744)	429,575	1.18%
Windsor II Admiral	344,122	1,993	68,300	(90,985)	323,430	0.89%
Vanguard SmallCap Indx	36,784	2,339	12,208	39,907	91,238	0.25%
Vanguard Instit Index	366,266	2,139	91,298	(955)	458,748	1.26%
Vanguard Tot Intl Stock Ind	208,113	-	42,918	(28,338)	222,693	0.61%
Vanguard Wlsly Inc Adml	14,064	-	4,059	50,623	68,746	0.19%
Vanguard Strategic Equity	110,794	-	34,820	6,905	152,519	0.42%
Total Equity	2,387,777	10,120	591,589	(12,466)	2,977,020	8.15%
Total Investments	31,353,527	8,756,002	1,662,471	(5,591,828)	36,180,172	99.05%
Other Assets	315,219	34,756	(1,361)	(423)	348,191	0.95%
Net position held in trust for plan	\$ 31,668,746	\$ 8,790,758	\$ 1,661,110	\$ (5,592,251)	\$ 36,528,363	100.00%

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2014

(4) Plan Administration

Nationwide Retirement Solutions, Inc. (NRS) of Columbus, Ohio, is the private sector administrator and marketing agent of the Plan. NRS provides various accounting, reporting, and marketing services and receives compensation through maintenance and asset fees charged against each participant account.

(5) Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes. The Plan has received a favorable determination letter dated October 28, 2004. The Plan has been amended since receiving the determination letter. However, the plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

(6) Plan Termination

Although they have not expressed any intent to do so, the South Dakota Retirement Board of Trustees and the South Dakota Legislature have the right to terminate the Plan. In the event of plan termination, participants would continue to be 100% vested in their account balances.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Retirement System Special Pay Plan (SPP), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SPP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SPP's internal control. Accordingly, we do not express an opinion on the effectiveness of the SPP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SPP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
November 25, 2014