



Financial Statements
June 30, 2015

**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**

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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, 2015, 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, 2015, 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 \$2,600,714,157 (24.13% of net position) respective statement of the fiduciary net position of the South Dakota Retirement System, as of June 30, 2015, and the respective statement of changes in fiduciary net position thereof for the year then ended in accordance 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. 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 28-33 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 System'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 13, 2015, 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 cursive script that reads "Eide Bailly LLP".

November 13, 2015
Boise, Idaho

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2015

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, 2015. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Financial Highlights

- The fiduciary net position of SDRS increased by \$169 million during fiscal year 2015. This increase was primarily due to the investment performance of 4.18%, which was significantly below the assumed rate of 7.25%.
- SDRS paid \$456.3 million to SDRS benefit recipients in fiscal year 2015 compared to \$425.9 million in 2014. SDRS received \$219.7 million in SDRS member and employer contributions in fiscal year 2015 compared to \$277.5 million 2014.

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, 2015 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 four schedules of trend data and related notes concerning the funded status of SDRS, changes in net pension asset, investment returns, actuarial assumptions, and employer contributions.

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

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.

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2015

A summary of the fiduciary net position is shown below:

Summary of Fiduciary Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 6,807,072	\$ 2,597,852
Receivables	28,322,333	33,945,006
Investments, at fair value	10,757,834,674	10,602,044,751
Other assets	1,064,953	353,484
Total assets	<u>10,794,029,032</u>	<u>10,638,941,093</u>
Liabilities:		
Accounts payable and accrued expenses	2,730,400	2,354,618
Unsettled investment purchases	11,263,148	29,008,600
Due to brokers – futures transactions	3,501,869	23,383
Total liabilities	<u>17,495,417</u>	<u>31,386,601</u>
Net position restricted for pension benefits	<u>\$ 10,776,533,615</u>	<u>\$ 10,607,554,492</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, 2015. The net investment returns were 4.18% for 2015 and 19.32% for 2014.

Deductions from fiduciary net position are primarily benefit payments. During 2015, SDRS paid \$456.3 million to benefit recipients or 7.2% more than 2014. The increase is due to the annual 3.1 percent cost-of-living adjustment and additional annuitants. Refunds of accumulated contributions during 2015 increased 6.2%. Administrative costs of SDRS increased 1.4 percent during 2015.

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2015

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

	2015	2014	Percentage change
Additions:			
Employee contributions	\$ 110,152,580	\$ 106,175,381	3.7%
Employer contributions	109,549,977	112,551,482	(2.7)
Investment income	435,682,659	1,703,240,824	(74.4)
Total additions	655,385,216	1,921,967,687	(65.9)
Deductions:			
Benefits	456,297,424	425,823,928	7.2
Refunds of contributions	26,197,447	24,666,785	6.2
Administrative expenses	3,911,222	3,857,226	1.4
Total deductions	486,406,093	454,347,939	7.1
Net change in net position	168,979,123	1,467,619,748	(88.5)
Plan net position restricted for pension benefits:			
Beginning of year	10,607,554,492	9,139,934,744	16.1
End of year	\$ 10,776,533,615	\$ 10,607,554,492	1.6%

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.

Net investment performance during 2015 and 2014 was 4.18% and 19.32%, 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.

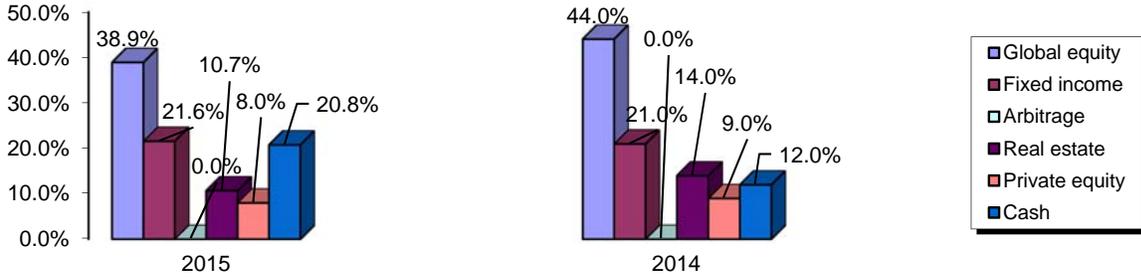
Though monthly benefit payments exceed monthly contributions, the SDRS is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to maintain a high percentage of assets in short-term investments unless that is deemed to be the best investment strategy. This allows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

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2015

Investment Summary



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, 2015

Assets	
Cash and cash equivalents	\$ 6,807,072
Receivables	
Employer	2,433,585
Employee	2,551,727
Benefits	36,882
Unsettled investment sales	1,607,147
Accrued interest and dividends	21,692,992
Total receivables	<u>28,322,333</u>
Investments, at fair value	
Fixed income	2,754,773,131
Equities	5,986,035,943
Real estate	1,155,045,187
Private equity	861,980,413
Total investments, at fair value	<u>10,757,834,674</u>
Property, at cost (net of accumulated depreciation of \$16,813)	<u>11,287</u>
Computer software development in progress	<u>1,041,450</u>
Other assets	<u>12,216</u>
Total assets	<u>10,794,029,032</u>
Liabilities	
Accounts payable and accrued expenses	2,730,400
Unsettled investment purchases	11,263,148
Due to brokers – futures transactions	3,501,869
Total liabilities	<u>17,495,417</u>
Net position restricted for pension benefits	<u>\$ 10,776,533,615</u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2015

Additions	
Contributions	
Employee	\$ 110,152,580
Employer	<u>109,549,977</u>
Total contributions	<u>219,702,557</u>
Investment Income	
From investing activities	
Net appreciation in fair value of investments	170,553,357
Interest	56,293,557
Dividends	163,962,812
Real estate	<u>65,168,418</u>
Investment activity income	455,978,144
Less investment activity expenses	<u>(21,355,848)</u>
Net investment activity income	<u>434,622,296</u>
From security lending activities	
Security lending income	1,492,656
Security lending expenses	<u>(432,293)</u>
Total additions	<u>1,060,363</u>
Total additions	<u>655,385,216</u>
Deductions	
Benefits	456,297,424
Refunds of contributions	26,197,447
Administrative expenses	<u>3,911,222</u>
Total deductions	<u>486,406,093</u>
Net change in net position	168,979,123
Net position restricted for pension benefits:	
Beginning of year	<u>10,607,554,492</u>
End of year	<u>\$ 10,776,533,615</u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

(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 Plant 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 Fund 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, 2015

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, 2015. 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, 2015, the number of participating governmental employers is as follows:

School districts	165
State of South Dakota	1
Board of Regents	1
Municipalities	157
Counties	64
Board and Commissions	93
	<hr/>
Total employers	481
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SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

At June 30, 2015, SDRS membership consists of the following:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	23,884
Class B (public safety and judicial employees)	1,527
Class C (cement plant employees)	245
Total retirees and beneficiaries	25,656
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	15,779
Class B (public safety and judicial employees)	767
Class C (cement plant employees)	48
Total terminated members	16,594
Current active members:	
Vested:	
Class A (general employees)	28,290
Class B (public safety and judicial employees)	2,145
Class C (cement plant employees)	18
Nonvested:	
Class A (general employees)	8,186
Class B (public safety and judicial employees)	744
Total current active members	39,383
Grand total	81,633

* *There are 155 class A and 12 class B public safety and judicial members or beneficiaries whose benefits are currently suspended but are entitled to future benefits. These members or beneficiaries are included as retirees and beneficiaries in their respective classes as listed.*

(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.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

(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 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 \$2,600,714,157 (24.13% of investments) at June 30, 2015. 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.

(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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

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, 2015 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 along with amendments included in Statement No. 67, Financial Reporting for Pension 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, with revisions in Statement No. 68, Accounting and Financial Reporting for Pensions*.

	<u>Employer</u>	<u>Percentage contributed</u>
Year ending June 30:		
2015	\$ 109,549,977	100%
2014	104,952,985	100
2013	100,376,481	100
2012	98,866,649	100
2011	98,624,737	100

Contributions during fiscal year 2015 totaling \$219,702,557 (\$110,152,580 employee, \$109,549,977 employer) were made in accordance with statutory rates. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

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%.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

Future payments will be received as follows:

	Employees
Year ending June 30:	
2016	\$ 25,081
2017	16,278
2018	9,783
2019	10,225
2020	10,108
Later	23,047
Deferred contributions receivable at June 30, 2015	\$ 94,522

(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, 2015, the balance in the reserve for funding of long-term benefit goals is (\$587,944,576). The reserve will increased by net gains of \$927 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, 2015 was as follows:

Total pension liability	\$10,352,405,041
Plan fiduciary net position	<u>(10,776,533,615)</u>
Net pension asset	<u>\$ (424,128,574)</u>

Fiduciary net position as a percentage of net pension asset	104.1%
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Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2015, 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 2017 and 7.50% thereafter, net of pension plan investment expense

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

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, 2015 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 2017 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 2017 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:

	1% Decrease	Current Discount Rate	1% Increase
System’s net pension (asset)/liability	\$ 1,067,526,870	\$ (424,128,574)	\$ (1,640,445,128)

(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.

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, 2015 meet policy guidelines. These deposits are not collateralized or covered by depository insurance. As a result, \$5,752,032 was exposed to custodial credit risk, which is 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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

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, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61%	4.5%
Fixed Income	27%	1.8%
Real Estate	10%	5.2%
Cash	<u>2%</u>	0%
	100%	

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

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	\$ 6,513,664,763	\$ 7,776,540,978
Apollo	16,531,779	10,627,751
Blackstone Credit Liquidity	1,535,449	72,359
Blackstone Private Equity	175,805,280	272,216,871
Blackstone Real Estate Partners	599,622,141	914,536,203
Brandes Global Mid-Cap	59,716,139	56,822,798
Bridgewater Pure Alpha Fund II	36,745,005	86,616,780
Capital International	41,312,425	37,801,836
Cargill North American Real Estate Partners	16,172,478	10,485,257
Carlyle	54,683,091	72,920,407
CINVIN	95,471,267	94,269,268
Crossroads Investment Advisors LP	1,111,780	1,237,347
CVC	52,548,379	56,917,322
CVI Global Value Fund	60,046,845	43,262,672
Cypress Merchant Banking Partners LP	5,595,114	7,627,066
Dimensional Fund Advisors, Inc.	8,977,461	52,032,867
DLJ Merchant Banking Partners LP	20,936	101,651
Doughty Hanson & Co European Real Estate	24,062,932	10,914,050
Doughty Hanson PE IV	39,171,817	35,677,356
Elevation Partners	1,572,285	1,994,510
KKR Associates	11,635,035	14,237,993
Lone Star Real Estate	104,466,022	111,666,087
Pinebridge	5,494,470	3,562,591
Riverstone	78,341,358	87,388,861
Rockpoint RE IV	29,646,333	36,765,547
Sanders All Asset Value	19,888,305	24,059,339
Sanders Capital	41,035,681	43,533,747
Silver Lake Partners LP	111,038,676	176,027,335
Starwood RE IX	40,462,796	60,050,292
TCW Opp MBS Strategy	589,933,331	657,867,533
Total	\$ 8,836,309,373	\$ 10,757,834,674

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

(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:

	Fair value	Duration (in years)
Investment type:		
U.S. Treasuries	\$ 117,197,796	6.76
U.S. Treasury Bills	99,986,997	0.38
U.S. Treasury strips	61,974,321	8.53
U.S. agencies	55,867,735	4.61
U.S. agencies discount notes	109,680,953	0.22
Investment grade corporates	416,670,531	4.72
High-yield corporates	145,385,905	3.97
Agency mortgage-backed securities	317,502,204	4.87
Non-agency mortgage-backed securities	513,975,941	0.53
Total	\$1,838,242,383	3.27

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, 2015, 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, 2015

	<u>Fair value</u>
Moody's rating:	
Aaa	\$ 1,053,039,458
Aa	46,704,259
A	204,133,989
Baa	199,302,061
Ba	91,161,146
B	98,275,943
Caa	201,333,691
Ca	151,402,723
D	3,886,777
P-1	109,680,953
Unrated	79,831,789
Total	<u>\$ 2,238,752,789</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, 2015 (excluding those issued by or explicitly guaranteed by the U.S. government).

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

(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, 2015 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	\$ 7,357,917	\$ -	\$ -	\$ 7,357,917
Brazilian Real	1,300,072	-	15,326	1,315,398
British Pound	340,038,407	-	1,291,554	341,329,961
Canadian Dollar	82,325,888	-	1,137,288	83,463,176
Danish Krone	6,023,196	-	-	6,023,196
Euro	289,276,551	-	1,014,633	290,291,184
Hong Kong Dollar	4,914,111	-	116,997	5,031,108
Hungarian Forint	1,014,386	-	-	1,014,386
Japanese Yen	148,980,238	-	2,171,556	151,151,794
Korean Won	59,380,649	-	4,406	59,385,055
Singapore Dollar	334,100	-	-	334,100
Swedish Krona	1,941,508	-	-	1,941,508
Swiss Franc	300,642,067	-	271	300,642,338
Thai Baht	893,282	-	-	893,282
	<u>\$ 1,244,422,372</u>	<u>\$ -</u>	<u>\$ 5,752,031</u>	<u>\$ 1,250,174,403</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, 2015 was \$2,017,025,601. The total fair value of global equity and high-yield fixed income investments managed by external managers was \$162,708,986 and \$43,335,031, respectively.

(e) Return on Investments

During fiscal year 2015, SDRS's investments (including investments bought and sold, as well as held during the year) appreciated in value by \$170,553,357.

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, 2015

Change in Fair Value of Investments

Appreciation in fair value of investments:	
Equities	\$ (390,988,861)
Fixed income	(44,936,388)
Real estate	(111,000,728)
Private equity	(55,760,782)
Change in accrued income	2,979,385
Total increase in fair value	(599,707,374)
Realized gain (loss) on investments:	
Equities	442,289,885
Fixed income	33,871,531
Real estate	270,053,233
Private equity	102,862,223
Total net realized gains	849,076,872
Futures - change in unrealized gain (loss)	46,478,039
Futures - Realized gain (loss)	(125,294,180)
Net loss on futures	(78,816,141)
Net appreciation in investments	\$ 170,553,357

(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, 2015 was \$173,308,824 and the collateral held on the same date was \$177,862,843. 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. 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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

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.

(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, 2015, 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, 2015, 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, 2015 of (\$3,501,869) 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, 2015 was (\$78,816,141).

Futures contract positions at June 30, 2015 were as follows:

Description	Expiration date	Open position	Number of contracts	Notional Contract size	Fair value
U.S. Treasury note	September 2015	Long	2,735	100,000 par value 6%, 10-year U.S. Treasury note	\$ 345,080,078
S&P 500 Index	September 2015	Short	17,520		\$ (1,799,742,000)

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

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 Fiduciary 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 fiduciary 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, 2015 was \$5,219,791. At June 30, 2015, 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	\$ (20,770,519)	CHF	8/10/2015	\$ 111,075
Forward sale	(275,612,600)	CNY	11/3/2015	347,409
Forward sale	(15,000,000)	EUR	11/30/2016	312,456
Forward purchase	275,612,600	CNY	9/10/2015	(609,703)

(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, 2015, the net fair value of foreign currency forward contracts was \$984,062. 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	\$ 984,062

(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 \$161,237.

(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, 2015, a liability existed for accumulated annual leave calculated at the employees’ June 30, 2015 pay rate in the amount of \$146,332. Employees who have been continuously employed by SDRS and the State for at least seven years prior to the date of 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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2015

liability is calculated assuming the likelihood that they will meet the seven-year threshold in the future. At June 30, 2015, a liability existed for accumulated and accrued sick leave calculated at the employees' June 30, 2015 pay rate in the amount of \$151,959.

	2015	2014	Percentage change
Total compensated absences	\$ 298,291	\$ 267,164	11.65%

The total leave liability for the current year is on the statement of fiduciary 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, 2015, is as follows for the fiscal year ending June 30:

2016	\$ 104,471
2017	104,471
2018	104,471
2019	104,471
2020	104,471
Thereafter	208,942
Total remaining minimum payments	\$ 731,297

Lease expense for the year ending June 30, 2015 was \$104,471.

(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, 2015

Of the \$274,144,674 net position restricted for plan benefits at June 30, 2015, \$167,574,453 was held in trust for employees of the State, while the remaining \$106,570,221 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$1,420,872 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2015.

(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 \$41,460,382 net position restricted for plan benefits at June 30, 2015, \$23,233,461 was held in trust for employees of the State, while the remaining \$18,226,921 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$21,951 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2015.

(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, 2015, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$686,677,717 and to real estate limited partnerships totaling approximately \$1,011,666,116. 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, 2015

(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.

2015

Computer software development in progress	\$1,014,450
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In March 2014, development began on the South Dakota Retirement System (RETAPP) system. Costs of the RETAPP system will 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, 2015 was \$600,000.



Required Supplementary Information
June 30, 2015

South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM
Schedules of Required Supplementary Information

June 30, 2015

SCHEDULE OF CHANGES IN THE SYSTEM'S NET PENSION ASSET

Last Fiscal Year

	2015	2014
Total pension liability		
Service cost	\$ 179,349,820	\$ 161,697,696
Interest	712,632,857	633,951,211
Changes in benefit terms	-	(5,082,771)
Differences between expected and actual experience	55,821,847	78,328,269
Changes of assumptions	-	604,281,184
Cement plant consolidation	-	60,649,185
Benefit payments, including refunds	(482,494,871)	(450,490,712)
Net change in total pension liability	465,309,653	1,083,334,062
Total pension liability - beginning	9,887,095,388	8,803,761,326
Total pension liability - ending	10,352,405,041	9,887,095,388
 Plan fiduciary net position		
Contributions - employer	109,549,977	104,952,985
Contributions - member	110,152,580	106,175,381
Net investment income	435,682,659	1,695,543,796
Benefit payments, including refunds	(482,494,871)	(450,490,712)
Administrative expense	(3,911,222)	(3,853,073)
Cement plant consolidation	-	69,519,407
Net change in plan fiduciary net position	168,979,123	1,521,847,784
Plan fiduciary net position - beginning	10,607,554,492	9,085,706,708
Plan fiduciary net position - ending	\$ 10,776,533,615	\$ 10,607,554,492
 System's net pension liability(asset) - ending	\$ (424,128,574)	\$ (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, 2015

SCHEDULE OF SYSTEM'S NET PENSION ASSET

Last Fiscal Year

	2015	2014
Total pension liability	\$ 10,352,405,041	\$ 9,887,095,388
Plan fiduciary net position	10,776,533,615	10,607,554,492
System's net pension liability (asset)	<u>\$ (424,128,574)</u>	<u>\$ (720,459,104)</u>
Plan fiduciary net position as a percentage of the total pension liability	104.10%	107.29%
Actuarial projected covered-employee payroll	1,758,315,755	1,685,627,785
System's net pension liability (asset) as a percentage of covered-employee payroll	-24.121%	-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

	2015	2014
Actuarially determined contribution	\$ 190,091,516	\$ 172,001,459
Contributions in relation to the actuarially determined contribution	218,795,180	209,678,082
Contribution deficiency (excess)	<u>\$ (28,703,664)</u>	<u>\$ (37,676,623)</u>
Reported covered-employee payroll	1,758,315,755	1,685,627,785
Contributions as a percentage of covered-employee payroll	12.443%	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

Schedule of Required Supplementary Information

June 30, 2015

SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year

	<u>2015</u>	<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>
Annual money-weighted rate or return, net of investment expenses	4.17%	18.91%	19.01%	1.37%	25.27%	18.20%	-21.05%	-8.93%	21.07%	12.86%
Annual time-weighted rate or return, net of investment expenses	4.18%	18.90%	19.02%	1.45%	25.18%	17.99%	-20.89%	-9.00%	21.06%	12.85%

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Schedule of Required Supplementary Information

June 30, 2015

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, 2015
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 2017 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, 2015

South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM

Other Supplementary Information

Year Ended June 30, 2015

Schedule of Administrative Expenses

Personal services:	
Salary and per diem	\$ 1,795,125
Employee benefits	<u>511,674</u>
Total personal services	<u>2,306,799</u>
Operating expenses:	
Travel	<u>83,239</u>
Contractual services:	
Audit	131,316
Finance	26,433
Valuations	120,826
Consulting	105,987
Studies	36,388
Special studies	66,451
Legal	6,183
Communications	45,450
Medical	5,288
Operations	<u>648,309</u>
Total contractual services	<u>1,192,631</u>
Supplies and materials	278,902
Capital assets	<u>49,651</u>
Total operating expenses	<u>1,604,423</u>
Total administrative expenses	<u><u>\$ 3,911,222</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM

Other Supplementary Information

Year Ended June 30, 2015

Schedule of Administrative Expenses

Investment managers

State of South Dakota Investment Council	\$ 11,498,209
Apollo	171,111
Blackstone Credit Liquidity	522
Blackstone Private Equity	(264,023)
Blackstone Real Estate Partners	(14,582,101)
Brandes Global Mid-Cap	787,624
Capital International	1,145,985
Cargill North American Real Estate Partners	286,605
Carlyle	1,548,840
CINVIN	2,916,848
Crossroads Investment Advisors LP	101,161
CVC	231,981
CVI	609,392
Dimensional Fund Advisors, Inc.	230,280
DLJ Merchant Banking Partners LP	14,059
Doughty Hanson & Co European Real Estate	938,344
Doughty Hanson PE IV	709,755
Elevation Partners	48,978
KKR Associates	50,063
Lone Star Real Estate	3,974,202
Pinebridge	347,501
Riverstone	1,745,929
Rockpoint RE IV	1,434,804
Sanders All Asset Value	287,575
Sanders Capital	266,835
Silver Lake Partners LP	2,619,721
Starwood RE IX	1,698,535
TCW Opp MBS Strategy	2,537,113
	<hr/>
Total investment activity expenses	\$ 21,355,848



**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, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2015.

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 13, 2015



Financial Statements
June 30, 2015

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, 2015, 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, 2015, 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 38-41 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 13, 2015, 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.



November 13, 2015
Boise, Idaho

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2015

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, 2015. This section is intended to supplement the SRP financial statements.

Financial Highlights

- * The net position available for plan benefits of the SRP increased by \$20.8 million during fiscal year 2015. This increase was primarily attributable to investment gains during the year and contributions outweighing distributions to participants.
- * The SRP paid \$11.5 million to benefit recipients in fiscal year 2015 compared to \$10.1 million in 2014. The SRP received \$24.2 million in contributions in fiscal year 2015 compared to \$20.0 million in 2014.

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, 2015, 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, 2015

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

Summary of Fiduciary Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Investments, at fair value	\$ 273,021,545	\$ 252,393,986
Cash	234,865	273,916
Accounts receivable	169,675	179,128
Accrued interest	2,403	2,663
Contributions receivable	<u>742,402</u>	<u>516,130</u>
Total assets	274,170,890	253,365,823
Liabilities:		
Accounts payable	<u>26,216</u>	<u>38,748</u>
Net position held in trust for plan benefits	<u><u>\$ 274,144,674</u></u>	<u><u>\$ 253,327,075</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2015

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 2015, SRP paid \$11.5 million to benefit recipients, or 13.73% more than 2014.

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

	<u>2015</u>	<u>2014</u>	<u>Percentage Change</u>
Additions:			
Contributions-employee	\$ 24,182,730	\$ 20,020,255	20.79%
Investment income	8,705,369	34,374,785	-74.68%
Other income	(9,453)	14,533	-165.05%
	<u>9,829</u>	<u>-</u>	100.00%
Transfers from related plan			
Total additions	<u>32,888,475</u>	<u>54,409,573</u>	-39.55%
Deductions:			
Distributions to participants	11,524,244	10,132,777	13.73%
Administrative expenses	<u>546,632</u>	<u>492,981</u>	10.88%
Total deductions	<u>12,070,876</u>	<u>10,625,758</u>	13.60%
Net change in net position	<u>20,817,599</u>	<u>43,783,815</u>	-52.45%
Plan net position held in trust for plan benefits:			
Beginning of year	<u>253,327,075</u>	<u>209,543,260</u>	20.89%
End of year	<u>\$ 274,144,674</u>	<u>\$ 253,327,075</u>	8.22%

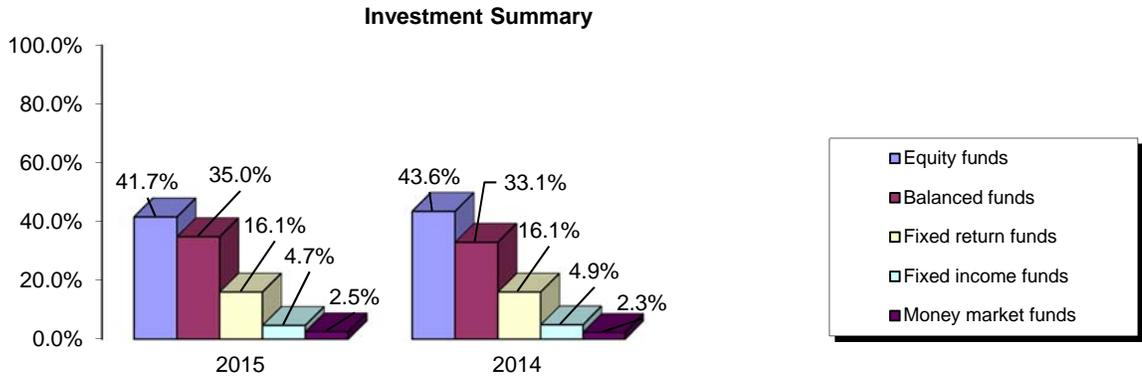
SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2015

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, 2015

Assets:

Investments, at fair value:

Equity funds	\$ 114,030,762
Balanced funds	95,530,592
Fixed return funds	43,719,402
Fixed income funds	12,876,968
Money market funds	<u>6,863,821</u>

Total investments, at fair value 273,021,545

Cash 234,865

Accounts receivable 169,675

Accrued interest 2,403

Contributions receivable 742,402

Total assets 274,170,890

Liabilities:

Accounts payable 26,216

Plan net position held in trust for plan benefits \$ 274,144,674

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2015

Additions:	
Contributions-employee	\$ 24,182,730
Investment income	8,705,369
Other income	(9,453)
Transfers from related plan	<u>9,829</u>
Total additions	<u>32,888,475</u>
Deductions:	
Distributions to participants	11,524,244
Administrative expenses	<u>546,632</u>
Total deductions	<u>12,070,876</u>
Net increase in plan net position	20,817,599
Plan net position held in trust for plan benefits	
Beginning of year	<u>253,327,075</u>
End of year	<u><u>\$ 274,144,674</u></u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2015

(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 16,840 participants and 328 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 \$18,000 for calendar year 2015 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 \$6,000.

There is a special catch-up provision that allows a participant for three years prior to the normal retirement age to contribute the lesser of

- Twice the annual limit (\$36,000 in 2015) or
- The basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions)

(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.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2015

(e) *Vesting*

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

(f) *Transfers from Related Plan*

During the year, assets of \$9,829 were transferred into the Plan from the South Dakota Retirement Special Pay Plan (SPP), a related plan. Transfers between SRP and SPP are allowed under state statutes.

(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, 2015, 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, 2015

Changes in fiduciary net position for the year ended June 30, 2015 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	\$ 5,752,780	\$ 891,831	\$ 714	\$ 218,496	\$ 6,863,821	2.50%
Fixed Return:						
Prudential	40,782,987	2,873,138	1,238,562	(1,175,285)	43,719,402	15.95%
Fixed Income						
Vanguard Bond Market	12,223,582	695,359	204,397	(246,370)	12,876,968	4.70%
Balanced						
* Vanguard Target Ret Inc Fund	5,630,815	139,939	118,179	173,287	6,062,220	2.21%
* Vanguard Target Ret 2010 Fund	6,875,815	277,691	154,411	(642,038)	6,665,879	2.43%
* Vanguard Target Ret 2015 Fund	16,793,327	1,131,776	422,609	(2,014,769)	16,332,943	5.96%
* Vanguard Target Ret 2020 Fund	18,487,883	2,616,346	578,121	(239,561)	21,442,789	7.82%
* Vanguard Target Ret 2025 Fund	12,339,943	2,747,265	426,780	(29,162)	15,484,826	5.65%
* Vanguard Target Ret 2030 Fund	8,979,037	1,867,209	297,656	(111,332)	11,032,570	4.02%
* Vanguard Target Ret 2035 Fund	4,930,935	1,024,192	166,183	(340,817)	5,780,493	2.11%
* Vanguard Target Ret 2040 Fund	3,359,176	899,828	111,802	(234,247)	4,136,559	1.51%
* Vanguard Target Ret 2045 Fund	2,697,469	854,780	104,275	(47,394)	3,609,130	1.32%
* Vanguard Target Ret 2050 Fund	2,962,192	953,536	117,429	(92,059)	3,941,098	1.44%
* Vanguard Target Ret 2055 Fund	472,711	382,327	21,962	23,984	900,984	0.33%
* Vanguard Target Ret 2060 Fund	70,493	51,270	3,364	15,974	141,101	0.05%
Total Balanced	83,599,796	12,946,159	2,522,771	(3,538,134)	95,530,592	34.85%
Equity						
* Mutual Shares	16,616,328	509,455	312,724	(1,664,207)	15,774,300	5.75%
* Windsor II Admiral	25,952,155	849,978	1,106,385	(2,306,817)	25,601,701	9.34%
* Vanguard Instit Index	27,813,923	1,448,166	2,110,909	(1,180,405)	30,192,593	11.01%
* Vanguard Tot Intl Stock Ind	8,523,144	509,235	(393,995)	(919,291)	7,719,093	2.82%
* Dodge Cox Global Stock	969,910	108,860	4,125	(53,171)	1,029,724	0.38%
* Dodge & Cox Int Stock Fnd	2,167,570	190,552	(79,234)	(148,433)	2,130,455	0.78%
* Growth Fund of America	6,741,232	665,620	567,770	(687,222)	7,287,400	2.66%
* Capital World Grth & Inc	3,639,506	384,622	35,936	(94,802)	3,965,262	1.45%
* Vanguard Small Cap Index	885,561	71,018	(47,638)	(908,941)	-	0.00%
* Vanguard Small Cap Index Fd AS	-	247,730	106,609	965,501	1,319,840	0.48%
* Vanguard Ext Mkt Idx Inst	11,535,330	811,055	703,987	(898,621)	12,151,751	4.43%
* Vanguard Wlsly Inc Adml	1,668,403	392,598	21,048	465,076	2,547,125	0.93%
* Vanguard Strategic Equity	3,521,779	387,159	287,896	114,684	4,311,518	1.57%
Total Equity	110,034,841	6,576,048	4,736,522	(7,316,649)	114,030,762	41.60%
Total Investments	252,393,986	23,982,535	8,702,966	(12,057,942)	273,021,545	99.59%
Other Assets	933,089	200,195	(10,155)	-	1,123,129	0.41%
Net position held in trust for plan benefits	\$ 253,327,075	\$ 24,182,730	\$ 8,692,811	\$ (12,057,942)	\$ 274,144,674	100.00%

Investments in bold represent investments exceeding 5% or more of net position as of June 30, 2015. Investments with an asterisk () represent investments with international mutual funds.*

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2015

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. Since all investments are participant directed, all risks exist at the participant level. Each individual within the plan has the responsibility for managing their exposure to fair value loss.

(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 portfolios of the SDRS Supplemental Retirement Plan are benchmarked to the duration of the International Index and must fall between 70% and 130% of the duration.

As of June 30, 2015, the plan had the following investments and maturities in its fixed income investment and certain mutual funds which include investments in bonds. The durations of the various investment types are listed in the following table:

		Fair Value	Weighted Average Maturity (Years)	Credit Quality
Fixed Income				
	VBTI Vanguard Bond Market	\$12,203,503	7.90	AA
Balanced				
	VTIN Vanguard Target Ret Inc Fund	3,894,976	7.00	AA
	VTEN Vanguard Target Ret 2010 Fund	3,999,527	7.08	AA
	VTXV Vanguard Target Ret 2015 Fund	7,748,348	7.39	AA
	VTWN Vanguard Target Ret 2020 Fund	8,242,608	8.15	AA
	VTTV Vanguard Target Ret 2025 Fund	4,874,623	8.19	AA
	VTHR Vanguard Target Ret 2030 Fund	2,684,224	8.19	AA
	VTTH Vanguard Target Ret 2035 Fund	993,667	8.20	AA
	VFOR Vanguard Target Ret 2040 Fund	418,620	8.20	AA
	VTIV Vanguard Target Ret 2045 Fund	340,702	8.20	AA
	VFIF Vanguard Target Ret 2050 Fund	372,828	8.20	AA
	VFFV Vanguard Target Ret 2055 Fund	86,044	8.19	AA
	VTTS Vanguard Target Ret 2060 Fund	13,193	8.19	AA
	VWIA Vanguard Wlsly Inc Adml	1,530,822	8.90	A

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2015

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2015, 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.

	<u>Fair value</u>
Moody's rating:	
Aa	\$ 45,872,863
A	1,530,822
Total	<u>\$ 47,403,685</u>

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the plan's investment in a single issuer. The plan's investments are managed by several fund managers. The concentration of investments are determined by the participants' elections to invest in available investments options as selected by the SD Investment Council. The investments that exceed 5% are identified in bold on page 46.

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. The plan allows the option of investments in mutual funds of countries outside the US that invest in securities not required to disclose the individual assets within the fund. The fair value of these investments was \$42,266,852 as of June 30, 2015. International mutual funds are marked with asterisk on page 46.

(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.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2015

(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, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2015.

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 13, 2015



Financial Statements
June 30, 2015

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, 2015, 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, 2015, 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 54-57 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 13, 2015, 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 13, 2015
Boise, Idaho

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2015

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, 2015. 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 2015. This increase was primarily attributable to additional participant contributions and investment gains.
- The SPP paid \$5.9 million to benefit recipients in fiscal year 2015 compared to \$5.5 million in 2014. The SPP received \$9.8 million in contributions in fiscal year 2015 compared to \$8.8 million in 2014.

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, 2015, 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, 2015

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

Summary of Fiduciary Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Investments, at fair value	\$ 40,831,435	\$ 36,180,173
Cash	11,160	95,613
Revenue sharing receivable	916	3,333
Accrued interest	145	165
Contributions receivable	<u>631,543</u>	<u>268,051</u>
Total assets	41,475,199	36,547,335
Liabilities:		
Accounts payable	<u>14,817</u>	<u>18,972</u>
Plan net position held in trust for plan benefits	<u><u>\$ 41,460,382</u></u>	<u><u>\$ 36,528,363</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2015

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 2015, SPP paid \$5.9 million to benefit recipients, or 5.60% more than 2014.

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

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Additions:			
Contributions-employee	\$ 9,759,000	\$ 8,790,758	11.01%
Investment income	1,091,068	1,662,636	-34.38%
Other income	<u>30,028</u>	<u>31,054</u>	-3.30%
Total additions	<u>10,880,096</u>	<u>10,484,448</u>	3.77%
	<u>9,829</u>	<u>-</u>	100.00%
Deductions:			
Distributions to participants	5,851,781	5,541,598	5.60%
Administrative expenses	<u>86,467</u>	<u>83,233</u>	3.89%
Total deductions	<u>5,948,077</u>	<u>5,624,831</u>	5.75%
Net change in plan net position	<u>4,932,019</u>	<u>4,859,617</u>	1.49%
Plan net position held in trust for plan benefits:			
Beginning of year	<u>36,528,363</u>	<u>31,668,746</u>	15.35%
End of year	<u>\$ 41,460,382</u>	<u>\$ 36,528,363</u>	13.50%

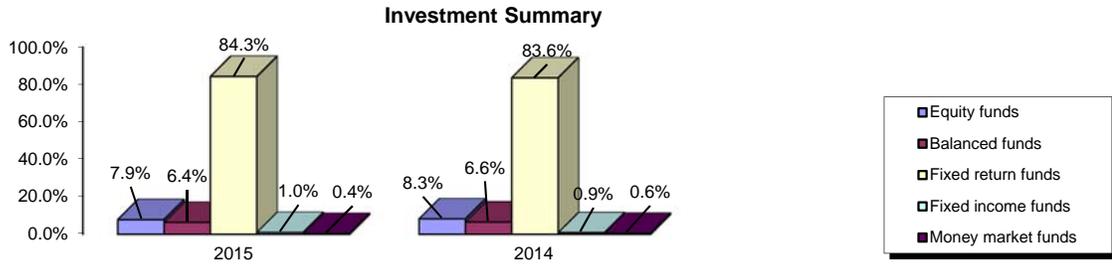
SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2015

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, 2015

Assets:

Investments, at fair value:

Equity funds	\$ 3,120,576
Balanced funds	2,513,029
Fixed return funds	34,848,486
Fixed income funds	269,813
Money market funds	<u>79,531</u>

Total investments, at fair value 40,831,435

Cash 11,160

Revenue sharing receivable 916

Accrued interest 145

Contributions receivable 631,543

Total assets 41,475,199

Liabilities:

Accounts payable 14,817

Net position held in trust for plan benefits \$ 41,460,382

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2015

Additions:	
Contributions-employee	\$ 9,759,000
Investment income	1,091,068
Other income	<u>30,028</u>
Total additions	<u>10,880,096</u>
Transfers to related plan	<u>9,829</u>
Deductions:	
Distributions to participants	5,851,781
Administrative expenses	<u>86,467</u>
Total deductions	<u>5,948,077</u>
Net change in net position	4,932,019
Net position held in trust for plan benefits:	
Beginning of year	<u>36,528,363</u>
End of year	<u><u>\$ 41,460,382</u></u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2015

(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 2,664 participants and 119 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 \$53,000 for calendar year 2015.

(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.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2015

(e) *Transfers from Related Plan*

During the year, assets of \$9,829 were transferred into the Supplemental Retirement Plan from the South Dakota Retirement Special Pay Plan (SPP), a related plan. Transfers between SRP and SPP are allowed under state statutes

(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, 2015, 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.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2015

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.

Changes in fiduciary net position for the year ended June 30, 2015 by investment alternatives available to participants were as follows:

	Beginning balance	Contributions	Investment Income	Transfers Out	Additions/ Deductions	Ending balance	Market value as a percentage of plan assets
Money Market							
Vanguard Prime Reserve	\$ 147,608	\$ -	\$ 11	\$ -	\$ (68,088)	\$ 79,531	0.19%
Fixed Return:							
Prudential	30,476,672	9,375,345	898,582	(9,829)	(5,892,284)	34,848,486	84.05%
Fixed Income							
Vanguard Bond Market	243,690	14,781	4,392	-	6,950	269,813	0.65%
Balanced							
Vanguard Target Ret Inc Fund	290,438	-	5,379	-	(23,745)	272,072	0.66%
Vanguard Target Ret 2010 Fund	785,366	-	17,265	-	(54,309)	748,322	1.80%
Vanguard Target Ret 2015 Fund	1,095,229	31,538	29,329	-	2,534	1,158,630	2.79%
Vanguard Target Ret 2020 Fund	109,713	-	4,932	-	53,738	168,383	0.41%
Vanguard Target Ret 2025 Fund	46,850	-	472	-	40,862	88,184	0.21%
Vanguard Target Ret 2030 Fund	6,684	-	284	-	4,052	11,020	0.03%
Vanguard Target Ret 2035 Fund	-	-	843	-	29,316	30,159	0.07%
Vanguard Target Ret 2050 Fund	902	-	1,541	-	33,816	36,259	0.09%
Total Balanced	2,335,182	31,538	60,045		86,264	2,513,029	6.06%
Equity							
Dodge and Cox Int Stock Fd	115,338	-	(8,231)	-	(63,962)	43,145	0.10%
DodgeCox Global Stock	90,121	-	(2,756)	-	(72,768)	14,597	0.04%
Am Funds Capital	120,427	-	1,288	-	10,282	131,997	0.32%
Vanguard Ext Mkt Ind Inst	403,713	23,588	16,405	-	(61,287)	382,419	0.92%
Growth Fund of America	500,472	1,380	40,450	-	4,876	547,178	1.32%
Mutual Shares	429,575	28,904	9,050	-	(61,926)	405,603	0.98%
Windsor II Admiral	323,430	-	14,214	-	(45,126)	292,518	0.71%
Vanguard SmallCap Indx	91,238	-	(4,443)	-	(86,795)	-	0.00%
Vanguard Small Cap Indx Fd AS	-	-	11,935	-	120,383	132,318	0.32%
Vanguard Instit Index	458,748	-	38,540	-	124,869	622,157	1.50%
Vanguard Tot Intl Stock Ind	222,693	-	(9,263)	-	(50,058)	163,372	0.39%
Vanguard Wsly Inc Adml	68,746	-	1,118	-	51,699	121,563	0.29%
Vanguard Strategic Equity	152,519	-	19,587	-	91,603	263,709	0.64%
Total Equity	2,977,020	53,872	127,894	-	(38,210)	3,120,576	7.53%
Total Investments	36,180,172	9,475,536	1,090,924	(9,829)	(5,905,368)	40,831,435	98.48%
Other Assets	348,191	283,464	(2,273)	-	(435)	628,947	1.52%
Net position held in trust for plan	\$ 36,528,363	\$ 9,759,000	\$ 1,088,651	\$ (9,829)	\$ (5,905,803)	\$ 41,460,382	100.00%

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2015

(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, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2015.

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 13, 2015