



Financial Statements  
June 30, 2022

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

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

Table of Contents

**South Dakota Retirement System**

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statement of Fiduciary Net Position	8
Statement of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10
Required Supplementary Information	
Schedule of Changes in the System's Net Pension Liability (Asset)	33
Schedule of System's Net Pension Liability (Asset)	34
Schedule of System's Contributions	34
Schedule of Investment Returns	35
Notes to Schedules of Required Supplementary Information	36
Other Supplementary Information	
Schedule of Administrative Expenses	37
Schedule of Investment Activity Expenses	38
Schedule of Payments to Consultants	38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39

**South Dakota Retirement System Supplemental Retirement Plan**

Independent Auditor's Report	41
Management's Discussion and Analysis	44
Financial Statements	
Statement of Fiduciary Net Position	48
Statement of Changes in Fiduciary Net Position	49
Notes to Financial Statements	50
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57

**South Dakota Retirement System Special Pay Plan**

Independent Auditor's Report	59
Management's Discussion and Analysis	62
Financial Statements	
Statement of Fiduciary Net Position	66
Statement of Changes in Fiduciary Net Position	67
Notes to Financial Statements	68
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	74



## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the pension fund of the South Dakota Retirement System (SDRS), a component unit of the State of South Dakota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise SDRS's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, a component unit of the State of South Dakota as of and for the year ended June 30, 2022, and the respective statement of changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SDRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

As described in Note 2 to the financial statements, the financial statements include investments valued at \$3,278,562,627 (23.20 percent of net position) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SDRS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and pension schedules listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SDRS' basic financial statements. The additional supplementary information accompanying financial information listed as additional supplemental schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 additional supplementary information accompanying financial information listed as additional supplemental schedules in the table of contents 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 October 27, 2022, on our consideration of 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 solely 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 the effectiveness of SDRS's 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".

Boise, Idaho  
October 27, 2022

# **SOUTH DAKOTA RETIREMENT SYSTEM**

## **Management's Discussion and Analysis**

June 30, 2022

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, 2022. 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 decreased by \$506 million during fiscal year 2022. This decrease was primarily due to the investment performance of -0.64 percent, which was below the assumed rate of 6.50 percent.
- SDRS paid \$665 million to SDRS benefit recipients in fiscal year 2022 compared to \$635 million in 2021.
- SDRS received \$286 million in SDRS member and employer contributions in fiscal year 2022 compared to \$272 million in 2021.

### **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, 2022, 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 required supplemental information consists of four schedules of trend data and related notes concerning the funded status of SDRS, changes in net pension liability (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.

## SOUTH DAKOTA RETIREMENT SYSTEM

### Management's Discussion and Analysis

June 30, 2022

SDRS benefits are based on the members' final average compensation, their years of credited service, and a benefit multiplier.

A summary of the fiduciary net position is shown below:

#### Summary of Fiduciary Net Position

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 9,928,347	\$ 8,003,442
Receivables	50,889,952	41,173,887
Investments, at fair value	14,061,778,901	14,587,723,827
Other assets	717,865	966,098
Due from brokers – futures transactions	16,469,458	-
Total assets	<u>14,139,784,523</u>	<u>14,637,867,254</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	3,545,316	2,094,518
Unsettled investment purchases	10,169,339	3,573,697
Total liabilities	<u>13,714,655</u>	<u>5,668,215</u>
Net position restricted for pension benefits	<u>\$ 14,126,069,868</u>	<u>\$ 14,632,199,039</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 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.

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate was 6.5 percent at June 30, 2022. The net investment returns were -0.64 percent for 2022 and 22.01 percent for 2021.

Deductions from fiduciary net position are primarily benefit payments. During 2022, SDRS paid \$665 million to benefit recipients or 4.6 percent more than 2021. The increase is due to the annual cost-of-living adjustment, which was 1.28 percent for fiscal year 2022, and additional annuitants. Refunds of accumulated contributions during 2022 increased 21.7 percent. Administrative costs of SDRS decreased 0.9 percent during 2022.

**SOUTH DAKOTA RETIREMENT SYSTEM**

Management’s Discussion and Analysis

June 30, 2022

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

**Summary of Changes in Fiduciary Net Position**

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>Percentage change</u>
<b>Additions</b>			
Employee contributions	\$ 143,041,545	\$ 136,159,404	5.1%
Employer contributions	143,270,826	136,159,432	5.2%
Transfer in from a related plan	-	56,628,426	100.0%
Investment income (loss)	<u>(91,538,866)</u>	<u>2,672,026,722</u>	<u>-103.4%</u>
Total additions	<u>194,773,505</u>	<u>3,000,973,984</u>	<u>-93.5%</u>
<b>Deductions</b>			
Benefits	665,067,430	635,766,143	4.6%
Refunds of contributions	30,973,246	25,441,901	21.7%
Administrative expenses	<u>4,862,000</u>	<u>4,905,128</u>	<u>-0.9%</u>
Total deductions	<u>700,902,676</u>	<u>666,113,172</u>	<u>5.2%</u>
Net change in net position	(506,129,171)	2,334,860,812	-121.7%
<b>Plan net position restricted for pension benefits</b>			
Beginning of year	<u>14,632,199,039</u>	<u>12,297,338,227</u>	<u>19.0%</u>
End of year	<u>\$ 14,126,069,868</u>	<u>\$ 14,632,199,039</u>	<u>-3.5%</u>

**Investments**

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

Net investment performance during 2022 and 2021 was -0.64 percent and 22.01 percent, respectively.

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

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

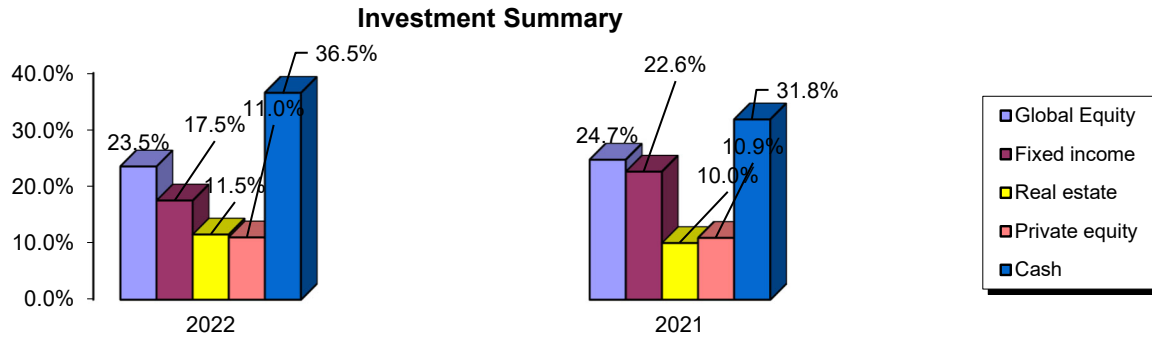


# SOUTH DAKOTA RETIREMENT SYSTEM

## Management's Discussion and Analysis

June 30, 2022

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



### Plan Status

SDRS's funding policy established objectives necessary for the management of SDRS based on statutory member and employer contributions. SDRS continues to be a very well-funded system with a fair value funded ration of 100.1%.

### 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 [sdrs.sd.gov](http://sdrs.sd.gov).

## SOUTH DAKOTA RETIREMENT SYSTEM

### Statement of Fiduciary Net Position

June 30, 2022

Assets	
Cash and cash equivalents	\$ 9,928,347
Receivables	
Employer	3,066,944
Employee	3,178,317
Benefits	147,095
Unsettled investment sales	7,326,226
Accrued interest and dividends	37,171,370
Total receivables	<u>50,889,952</u>
Investments, at fair value	
Fixed income	6,037,375,488
Equities	4,850,941,537
Real estate	1,624,059,579
Private equity	1,549,402,297
Total investments, at fair value	<u>14,061,778,901</u>
Due from brokers - futures transactions	<u>16,469,458</u>
Assets used in plan operations, at cost (net of accumulated depreciation of \$1,380,422)	<u>697,187</u>
Other assets	<u>20,678</u>
Total assets	<u>14,139,784,523</u>
Liabilities	
Accounts payable and accrued expenses	3,545,316
Unsettled investment purchases	10,169,339
Total liabilities	<u>13,714,655</u>
Net position restricted for pension benefits	<u>\$ 14,126,069,868</u>

See accompanying notes to financial statements.

**SOUTH DAKOTA RETIREMENT SYSTEM**

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2022

Additions	
Contributions	
Employee	\$ 143,041,545
Employer	143,270,826
	<hr/>
Total contributions	286,312,371
	<hr/>
Investment Income	
From investing activities	
Net depreciation in fair value of investments	(301,301,108)
Interest	81,243,150
Dividends	149,775,338
Real estate	30,468,569
	<hr/>
Investment activity loss	(39,814,051)
	<hr/>
Less investment activity expenses	(52,166,952)
	<hr/>
Net investment activity income	(91,981,003)
	<hr/>
From security lending activities	
Security lending income	630,907
Security lending expenses	(188,770)
	<hr/>
	442,137
	<hr/>
Total additions	194,773,505
	<hr/>
Deductions	
Benefits	665,067,430
Refunds of contributions	30,973,246
Administrative expenses	4,862,000
	<hr/>
Total deductions	700,902,676
	<hr/>
Net change in net position	(506,129,171)
Net position restricted for pension benefits:	
Beginning of year	14,632,199,039
	<hr/>
End of year	\$ 14,126,069,868
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See accompanying notes to financial statements.

# SOUTH DAKOTA RETIREMENT SYSTEM

## Notes to Financial Statements

June 30, 2022

### (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 a component unit of the State of South Dakota and as such 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) 3-12C.

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 four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members. Members and their employers make matching contributions, which are defined in State statute. SDRS may expend up to 3 percent of the annual contributions for administrative expenses subject to approval by the executive and legislative branches of the State.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation 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 Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation 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 Foundation 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 A and B eligible spouses of foundational members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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 Cement Plant provides for disability payments for those disabled on or before March 16, 2001. All members of the Cement Plant Retirement Plan on March 15, 2001, were 100 percent vested. Class C members may elect a single-life benefit, or joint and survivor benefits as described in their plan documents.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25 percent.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - \* The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5 percent and no greater than 3.5 percent.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - \* The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5 percent and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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 October 3, 2016, 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, 2022. 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

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

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 Annual Comprehensive Financial Report.

As of June 30, 2022, the number of participating governmental employers is as follows:

School Districts	164
State of South Dakota	1
Board of Regents	1
Municipalities	168
Counties	65
Board and Commissions	104
	503
Total employers	503

At June 30, 2022, SDRS membership consists of the following:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	29,895
Class B (public safety and judicial employees)	2,074
Class C (cement plant employees)	227
Class D (Department of Labor employees)	152
	152
Total retirees and beneficiaries	32,348 *
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	22,110
Class B (public safety and judicial employees)	1,465
Class C (cement plant employees)	28
Class D (Department of Labor employees)	1
	1
Total terminated members	23,604
Current active members:	
Vested:	
Class A (general employees)	29,622
Class B (public safety and judicial employees)	2,423
Class C (cement plant employees)	10
Class D (Department of Labor employees)	0
Nonvested:	
Class A (general employees)	8,895
Class B (public safety and judicial employees)	928
	928
Total current active members	41,878
Grand total	97,830

# SOUTH DAKOTA RETIREMENT SYSTEM

## Notes to Financial Statements

June 30, 2022

- \* *There are 84 class A, 10 class B public safety and judicial, and 1 class D 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.

#### ***(b) Method Used to Value Investments***

Investments are reported at fair value, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 72. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 sets forth the framework for measuring value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Valuation inputs are quoted prices in active markets for identical asset or liability as of the measurement date.

Level 2 – Valuation inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Valuation inputs are based on significant unobservable inputs for an asset or liability.

As a practical expedient, GASB 72 allows the net asset value (NAV) or its equivalent to be used when a readily determinable fair value is not available. The NAV valuations are based on valuations of the underlying companies as determined and reported by the fund manager or general partner and are excluded from the fair value hierarchy.

Additional required disclosures can be found in Note 5: Cash and Investments.

Investments denominated in foreign currencies are translated into United States Dollars (USD) using the year-end spot foreign currency exchange rates. Foreign exchange rate gains and losses are included with the net appreciation in fair value of investments.

**SOUTH DAKOTA RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2022

Alternative investments consist of investments in a variety of markets and industries through partnerships, corporate entities, co-investments, and other investment vehicles. For alternative investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, values these investments in good faith based upon the investment’s current financial statements or other information provided by the underlying investment advisor. For all of these alternative investments, SDRS has determined that net asset value reported by the underlying fund approximates the fair value of the investment. These fair value estimates are, by their nature, subjective and based on judgment. These alternative investments were valued at \$3,278,562,627 (23.20 percent of net position) at June 30, 2022. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

- (1) Futures contracts are marked to market based on quoted futures prices with changes in fair value reflected in the current period.
- (2) Interest is accrued in the period in which it is earned, and dividend income is recorded on the ex-dividend date.

The arithmetically calculated money-weighted return net of fees was -0.64 percent in 2022. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investment by the proportion of time they are available to earn during that period. The rate of return equates the sum of weighted external cash flows into and out of pension plan investments to the ending fair value of the pension plan investment.

**(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

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



**SOUTH DAKOTA RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2022

SDRS is funded by fixed member and employer contributions at a rate established by South Dakota law. On an annual basis, an 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, 2022, 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 GASB 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. 68, *Accounting and Financial Reporting for Pensions*.

Contributions during fiscal year 2022 totaling \$286,312,371 (\$143,041,545 employee, \$143,270,826 employer) were made in accordance with statutory rates. The employer contributions exceed the employee contributions due to the effect of SDCL 3-12C-1405, which governs the contributions of retired members who enter covered employment. Contributions for the last 5 fiscal years are as follows:

	<b>Employer</b>	<b>Percentage contributed</b>
Year ending June 30:		
2022	\$ 143,270,826	100%
2021	136,159,432	100
2020	131,681,949	100
2019	127,572,348	100
2018	124,734,270	100

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 percent to 8 percent.

Future payments will be received as follows:

	<b>Employees</b>
Year ending June 30:	
2023	\$ 33,891
2024	28,390
2025	20,552
2026	20,500
2027	15,768
Later	17,758
Deferred contributions receivable at June 30, 2022	\$ 136,859

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

#### (4) Net Pension Liability (Asset) of the System

The components of the net pension liability (asset) of the System at June 30, 2022, was as follows:

Total pension liability	\$14,116,619,245
Plan fiduciary net position	<u>(14,126,069,868)</u>
Net pension liability (asset)	<u>\$ (9,450,623)</u>

Fiduciary net position as a percentage of net pension liability (asset)	100.07%
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**Actuarial Assumptions** – The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded by years of service from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50%, net of pension plan investment expenses
Future COLAS	2.10%

All mortality rates were based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement Scale MP-2020.

Active and Terminated Vested Members are as follows:

- Teachers, Certified Regents, and Judicial: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

Retired Members are as follows:

- Teacher, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries are as follows:

- PubG-2010 contingent survivor mortality table

Disabled Members are as follows:

- Public Safety: PubS-2010 disabled member mortality table
- Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

**SOUTH DAKOTA RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2022

**Discount rate** – The discount rate used to measure the total pension liability was 6.50 percent. 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 liability/(asset) of the System, calculated using the discount rate of 6.50 percent, as well as what the System’s net pension (asset) liability would be if it were calculated using a discount rate that is 1 percent point lower (5.50 percent) or 1 percent point higher (7.50 percent) than the current rate:

	<u>1 percent Decrease</u>	<u>Current Discount Rate</u>	<u>1 percent Increase</u>
System’s net pension (asset)/liability	\$ 1,962,335,845	\$ (9,450,623)	\$ (1,620,951,154)

# SOUTH DAKOTA RETIREMENT SYSTEM

## Notes to Financial Statements

June 30, 2022

### (5) Cash and Investments

#### *Cash and Cash Equivalents*

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 U.S. 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 percent of any portfolio on a trade date +5 calendar days basis. All portfolios as of June 30, 2022 meet policy guidelines. These deposits are not collateralized or covered by depository insurance. As a result, \$3,925,870 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 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, 2022, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58 percent	3.7 percent
Fixed Income	30 percent	1.1 percent
Real Estate	10 percent	2.6 percent
Cash	<u>2 percent</u>	0.4 percent
	100 percent	

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

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

	<b>Cost</b>	<b>Fair value</b>
South Dakota Investment Council	\$ 10,130,884,469	\$ 10,619,768,427
Ares	1,437,437	96,671
Blackstone Capital Partners	83,226,196	142,684,234
Blackstone Energy Partners	87,484,898	137,479,950
Blackstone Real Estate	812,675,510	1,038,735,551
Bridgewater	36,742,005	125,242,473
Brookfield	65,775,924	89,185,091
Capital International	35,670,844	26,407,384
Carlyle	42,588,311	67,973,110
Cinven	165,388,086	226,015,411
CVC	159,017,733	207,987,839
CVI	11,503	11,503
Cypress Merchant Banking	20,572	20,572
Doughty Hanson Private Equity	147,584	520,689
Encap Energy	30,754,943	45,611,535
KKR Associates	834,840	356,308
Lone Star Real Estate	110,662,943	105,784,454
Pinebridge	3,117,443	3,336,356
Riverstone	145,142,121	152,816,734
Rockpoint Real Estate	139,050,333	176,457,949
Sanders Capital	55,604,785	70,306,397
Silver Lake	334,381,026	538,192,174
Starwood Real Estate	185,947,441	213,799,863
Tesley	14,873,934	11,912,016
TCW	60,235,833	61,076,210
	\$ 12,701,676,714	\$ 14,061,778,901
Total		

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

**(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 FTSE Broad Investment Grade (BIG) Index and must fall between 70 percent and 130 percent of the BIGs duration.

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

	<b>Fair value</b>	<b>Duration (in years)</b>
Investment type:		
U.S. Treasuries	\$ 287,730,000	5.96
U.S. Treasury Bills	979,871,924	0.16
U.S. Treasury STRIPS	367,806,018	7.40
U.S. Agencies	31,408,349	4.79
Investment Grade Corporates	401,409,741	5.63
High-Yield Corporates	421,579,106	4.33
Agency Mortgage-Backed Securities	241,365,015	6.29
Non-Agency Mortgage-Backed Securities	61,207,551	1.47
Term Loans	3,448,100	1.60
Total	\$ 2,795,825,804	3.73

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 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, 2022, 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, 2022

	<u>Fair value</u>
Moody's rating:	
Aaa	\$ 3,022,891,927
Aa	102,362,330
A	137,913,007
Baa	139,498,381
Ba	183,204,002
B	215,420,649
Caa	25,495,360
Ca	11,621,871
Unrated	51,000,794
Total	<u>\$ 3,889,408,321</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 percent or more of the total fair value of investments as of June 30, 2022 (excluding those issued by or explicitly guaranteed by the U.S. government).

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

**(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, 2022, is as follows (in U.S. dollar fair value):

	<b>Equities</b>	<b>Cash</b>	<b>Total</b>
Currency:			
Australian Dollar	\$ 13,695,270	\$ 65,054	\$ 13,760,324
British Pound	199,112,701	805,638	199,918,339
Canadian Dollar	92,732,602	280,462	93,013,064
Danish Krone	5,204,191	-	5,204,191
Euro	325,794,028	591,371	326,385,399
Hong Kong Dollar	8,471,729	59,796	8,531,525
Hungarian Forint	-	33,030	33,030
Japanese Yen	136,349,677	2,090,519	138,440,196
South Korean Won	65,724,041	-	65,724,041
Norwegian Krone	911,124	-	911,124
Singapore Dollar	888,526	-	888,526
Swedish Krona	10,804,848	-	10,804,848
Swiss Franc	145,200,106	-	145,200,106
Thai Baht	850,789	-	850,789
Total fair value	\$ 1,005,739,632	\$ 3,925,870	\$ 1,009,665,502

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, 2022, was \$3,173,461,876. The total fair value of hedge funds and high-yield fixed income investments managed by external managers was \$137,154,489 and \$11,503, respectively.

**(e) Return on Investments**

During fiscal year 2022, SDRS's investments (including investments bought and sold, as well as held during the year) depreciated in value by \$301,303,108.

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, 2022

#### Change in Fair Value of Investments

Appreciation (Depreciation) in fair value of investments:	
Equities	\$ (1,516,609,438)
Fixed income	(257,803,579)
Real estate	83,544,399
Private equity	(96,857,824)
Change in accrued income	<u>6,380,271</u>
Total decrease in fair value	<u>(1,781,346,171)</u>
Realized gain (loss) on investments:	
Equities	1,009,250,128
Fixed income	19,873,133
Real estate	260,739,827
Private equity	<u>107,496,929</u>
Total net realized gains	<u>1,397,360,017</u>
Futures - change in unrealized gain (loss)	137,218,179
Futures - Realized gain (loss)	<u>(54,533,133)</u>
Net gain on futures	<u>82,685,046</u>
Net depreciation in investments	<u><u>\$ (301,301,108)</u></u>

**(f) *Securities Lending***

State statutes and 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. 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 percent of fair value plus accrued interest for corporate debt securities, 102 percent of fair value for U.S. equity securities, and 105 percent 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 percent 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.

## **SOUTH DAKOTA RETIREMENT SYSTEM**

### Notes to Financial Statements

June 30, 2022

The fair value of securities on loan as of June 30, 2022, was \$95,902,666 and the collateral held on the same date was \$97,899,107. SDRS has no credit risk exposure to borrowers because the amounts SDRS owes the borrowers exceed the amounts the borrowers owe SDRS. The contract with the lending agent requires the agent to indemnify 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 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 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, 2022, SDRS does not have custodial credit risk with regard to the security lending collateral.

**SOUTH DAKOTA RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2022

**(h) Fair Value Measurements and Applications**

The following table shows the fair value in accordance with the GASB hierarchy:

<b>Investments Measured at Fair Value</b>	<b>6/30/2022</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Fixed Income Securities</b>				
US Treasuries	\$ 287,730,000	\$ -	\$ 287,730,000	\$ -
US Treasury Bills	979,871,924	-	979,871,924	-
US Treasury STRIPS	367,806,018	-	367,806,018	-
US Agencies	31,408,349	-	31,408,349	-
Investment Grade Corporates	401,409,741	-	401,409,741	-
Term Loans	4,338,100	-	-	4,338,100
High-Yield Corporates	421,579,106	-	421,579,106	-
Agency Mortgage-Backed Securities	241,365,015	-	241,365,015	-
Non-Agency Mortgage-Backed	61,207,551	-	61,207,551	-
<b>Total Fixed Income Securities</b>	<b>2,796,715,804</b>	<b>-</b>	<b>2,792,377,704</b>	<b>4,338,100</b>
<b>Equity Securities</b>				
Domestic Stock	3,286,372,474	3,286,372,474	-	-
Depository Receipts	53,052,191	53,052,191	-	-
ETF - Exchange Traded Fund	831,532,878	831,532,878	-	-
International Stock	1,005,739,632	1,005,739,632	-	-
Preferred Stock	448,664	-	448,664	-
Stock Warrants	1,162,041	1,162,041	-	-
<b>Total Equity Securities</b>	<b>5,178,307,880</b>	<b>5,177,859,216</b>	<b>448,664</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>\$ 7,975,023,684</b>	<b>\$ 5,177,859,216</b>	<b>\$ 2,792,826,368</b>	<b>\$ 4,338,100</b>
<b>Investments Measured at Net Asset Value (NAV)</b>				
Short Term Investment Funds	2,777,021,777			
Multi-Strategy Hedge Funds	137,154,489			
Alternative Investments				
Real Estate Funds	1,624,059,579			
Private Equity Funds	1,549,402,297			
Other Funds	11,503			
Total alternative investments	3,173,473,379			
<b>Investments, Measured at NAV</b>	<b>\$ 6,087,649,645</b>			
<b>Total Investments measured at fair value</b>	<b>\$ 14,062,673,329</b>			
Plus: cash Held by Fund Managers	4,138,990			
Plus: GL of FX Transactions	(1,727,841)			
Less: Accrued Monthly Interest	(3,305,577)			
	<b>\$ 14,061,778,901</b>			
<b>Investment derivative instruments</b>				
Futures Contracts	\$ 16,469,458	\$ 16,469,458	\$ -	\$ -
Foreign Exchange Forward Contracts (liability)	(1,427,841)	-	(1,427,841)	-
<b>Total investment derivative instruments</b>	<b>\$ (1,427,841)</b>	<b>\$ -</b>	<b>\$ (1,427,841)</b>	<b>\$ -</b>

## **SOUTH DAKOTA RETIREMENT SYSTEM**

### Notes to Financial Statements

June 30, 2022

Equity securities classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for identical securities as of the measurement date as issued by pricing vendors. Securities classified in Level 2 of the fair value hierarchy include valuations using quoted prices for a similar security in active markets and using observable inputs other than quoted prices for identical securities.

Debt securities classified in Level 2 of the fair value hierarchy are valued using observable inputs other than quoted prices for identical securities. The prices are determined by the use of matrix pricing techniques maintained by various pricing vendors/brokers for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Securities classified in Level 3 of the fair value hierarchy include valuations determined by management based on unobservable inputs.

Real estate funds classified in Level 3 of the fair value hierarchy are real estate alternative investments that invest primarily in overseas commercial real estate. These are investments which quoted prices are not readily available and are valued at estimated values as determined by the General Partner (GP). Investments are valued by the GP using one or more valuation methodologies with reference to the International Private Equity and Venture Capital Valuation Guidelines. The estimated fair values are subjective and based on judgment.

The Other Fund classified in Level 3 of the fair value hierarchy is valued at zero. It is an investment in an alternative investment fund that invested in distressed and defaulted debt securities and equities of financially troubled companies. All positions in the fund have been liquidated and only cash remains. The fund holds contingent liabilities that offset cash. Due to the highly questionable outcome of the contingent liabilities, it has been determined that a value of zero best reflects the fair value considering the information available as of June 30, 2022.

SDRS holds shares or interest in investments where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment as a practical expedient. The NAV valuations are based on valuations of the underlying companies as determined and reported by the fund manager or general partner.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using observable inputs other than quoted prices for identical securities. The foreign currency forward contract valuations are determined by interpolating fx rates for various settlement dates as of June 30, 2022.

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

<u>Investments Measured at Net Asset Value (NAV)</u>		<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Short Term Investment Funds (a)	\$ 2,777,021,777		Daily	0 days
Multi-Strategy Hedge Funds (c)	137,154,489		Monthly	5-30 days
Alternative Investments				
Real Estate Funds (d)	1,624,059,579	1,115,792,092		
Private Equity Funds (e)	1,549,402,297	446,660,106		
Other Funds (f)	<u>11,503</u>			
Investments, Measured at net asset value (NAV)	<u>\$ 6,087,649,645</u>			

(a) Short Term Investment Funds. This type includes investments in four open-end mutual funds that invest exclusively or primarily in high-quality, short-term securities that are issued or guaranteed by the U.S. government or by U.S. government agencies and instrumentalities. The fair values of the investments in this type have been determined using the NAV per share of the investments.

(b) Emerging Markets Small Cap Equity Mutual Funds. This type includes one investment in an open-end mutual fund that emphasizes broad diversification and consistent exposure to emerging market small company stocks. The fair value of the investment in this type has been determined using the NAV per share of the investment.

(c) Multi-Strategy Hedge Funds. This type includes two investments in funds that may invest in a wide range of asset classes in order to meet fund objectives. The fair values of the investments in this type have been determined using the NAV per share of the investments.

(d) Real Estate Funds. This type includes 27 real estate funds that invest primarily in commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the portfolio's ownership interest in partners' capital. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 20 years. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the portfolio's ownership interest in partners' capital.

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

(e) Private Equity Funds. This type includes 33 private equity funds that invest primarily in leveraged buyouts. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the portfolio's ownership interest in partners' capital. These investments can never be redeemed from the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 20 years. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the portfolio's ownership interest in partners' capital.

(f) Other Funds. This type includes one other alternative investment that is a hybrid private equity hedge fund that invests primarily in a broad range of debt, debt-related, and/or real estate-related investments. The fair values of the investment has been determined using the NAV per share (or its equivalent) of the portfolio's ownership interest in partners' capital. This investment can never be redeemed from the funds. Distributions from the fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the fund will be liquidated over the next year. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the portfolio's ownership interest in partners' capital.

#### **(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 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, 2022, S&P 500 futures and 10-year U.S. Treasury note futures were utilized. Upon entering into such a contract, 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 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, 2022 was \$(191,751,311).

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

Futures contract positions at June 30, 2022 were as follows:

Description	Expiration date	Open position	Number of contracts	Notional Contract size	Fair value
U.S. Treasury note	September 2022	Long	2,250	100,000 par value 6%, 10-year U.S. Treasury note	\$ 266,695,313
S&P 500 Index	September 2022	Short	8,935	\$50 x S&P 500 index	\$ (1,692,959,125)

#### ***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, 2022 was \$(1,156,111). At June 30, 2022, the foreign currency forward contracts outstanding were as follows:

Description	Notional amount	Currency	Value date	Fair value (US dollars)
Forward sale	\$ (1,077,070)	CHF	8/5/2022	\$ (19,160)
Forward buy	\$ 5,775,000,000	JPY	8/5/2022	\$ (1,305,084)
Forward buy	\$ 236,000,000	JPY	8/18/2022	\$ (103,597)

#### **(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, 2022, the net fair value of foreign currency forward contracts was \$0. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

#### **(b) Foreign Currency Risk**

SDRS is exposed to foreign currency risk on its foreign currency forward contracts because they are denominated in foreign currencies. The net fair value of the foreign currency forward contracts in U.S. dollars is \$(1,427,841).

# SOUTH DAKOTA RETIREMENT SYSTEM

## Notes to Financial Statements

June 30, 2022

### (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, 2022, a liability existed for accumulated annual leave calculated at the employees' June 30, 2022 pay rate in the amount of \$225,153. 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 liability is calculated assuming the likelihood that they will meet the seven-year threshold in the future. At June 30, 2022, a liability existed for accumulated and accrued sick leave calculated at the employees' June 30, 2022 pay rate in the amount of \$210,268.

	<u>2022</u>	<u>2021</u>	<u>Percentage change</u>
Total compensated absences	\$ 435,421	\$ 383,297	13.60%

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) 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.

Of the \$542,031,961 net position restricted for plan benefits at June 30, 2022, \$317,288,368 was held in trust for employees of the State, while the remaining \$224,743,593 represents the assets held in trust for employees of other jurisdictions.



## **SOUTH DAKOTA RETIREMENT SYSTEM**

### Notes to Financial Statements

June 30, 2022

#### **(9) 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 percent 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 \$78,064,617 net position restricted for plan benefits at June 30, 2022, \$42,108,985 was held in trust for employees of the State, while the remaining \$35,955,632 represents the assets held in trust for employees of other jurisdictions.

#### **(10) 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 3-12C-221).

#### **(11) Commitments**

At June 30, 2022, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$446,660,106 and to real estate limited partnerships totaling approximately \$1,115,792,092. The commitments may be called at the discretion of the general partner or may never be called.

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Financial Statements

June 30, 2022

#### (12) Litigation

Deutsche Bank and Wilmington Trust Company have filed a number of actions around the country against selling shareholders, and those actions are all 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. 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. All claims against the former Tribune shareholders (defendants) have been dismissed. The *FitzSimmons* litigation was dismissed in January 2017; however, there is an ongoing appeal in the Second Circuit. The Noteholder litigation was dismissed in 2013 and affirmed by the Second Circuit. The Noteholders sought review by the U.S. Supreme Court and the shareholders opposed the Noteholders' petition for writ of certiorari. The U.S. Supreme Court denied the Noteholder's certiorari petition challenging the Second Circuit's 2019 decision affirming dismissal of the constructive fraudulent conveyance claims brought by the Noteholders against former Tribune Shareholders. The Second Circuit issued an opinion affirming the District Court's dismissal of the intentional fraudulent conveyance claims against the Tribune shareholders and its refusal to allow the Trustee leave to amend the complaint to include a constructive fraudulent conveyance claim. The Trustee initiated an appeal with the U.S. Supreme Court. The Petition only sought review on the question of imputing the alleged fraudulent conduct of Tribune management on Tribune for purposes of an intentional fraudulent conveyance claim brought under Section 548(a)(1)(A) of the bankruptcy code. The U.S. Supreme Court declined the Litigation Trustee's Petition seeking review of the Second Circuit's decision affirming dismissal of the *FitzSimmons* action. As a consequence, after more than 10 years the Tribune litigation against its former shareholders has finally concluded. The legal action did not represent an immediate negative contingency.

#### (13) New Accounting Pronouncements

Statement No. 87, "Leases" will take effect starting the with the fiscal year that ends June 30, 2022. SDRS has leases on four office printer/copiers and our office building. After reviewing the lease principles outlined in GASB 87, it was determined that SDRS does not have any leases that match the criteria described in this statement. Leases on our office printer/copiers were determined by the State of South Dakota to be immaterial for financial reporting. Review of the building lease determined that the cancellation option does exist. Therefore, in accordance to Article XII of the statement, this lease is classified as a short-term lease per GASB standards. SDRS does not have any leases that are material; therefore, there are not assets recorded.



Required Supplementary Information  
June 30, 2022

# South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM  
Schedules of Required Supplementary Information  
June 30, 2022

**SCHEDULE OF CHANGES IN THE SYSTEM'S NET PENSION LIABILITY (ASSET)**

**Last Fiscal Year**

	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>									
Service cost	\$ 260,129,052	\$ 228,793,696	\$ 237,264,711	\$ 233,802,396	\$ 222,709,592	\$ 192,682,191	\$ 184,923,317	\$ 179,349,820	\$ 161,697,696
Interest	895,957,242	795,666,742	805,447,155	791,288,656	752,702,794	781,413,919	745,774,586	712,632,857	633,951,211
Changes in benefit terms	-	-	2,246,202	-	-	(567,079,980)	-	-	(5,082,771)
Differences between expected and actual experience	209,192,709	30,918,486	6,447,338	(6,190,846)	5,220,615	97,593,700	78,645,840	55,821,847	78,328,269
Changes of assumptions	(418,989,267)	1,134,566,674	(594,816,177)	(193,660,111)	181,931,669	820,191,401	-	-	604,281,184
Department of Labor and Regulation Plan Merger	-	44,637,384	-	-	-	-	-	-	60,649,185
Benefit payments, including refunds	(696,040,676)	(661,208,044)	(625,796,378)	(596,424,723)	(564,141,147)	(541,090,032)	(510,496,482)	(482,494,871)	(450,490,712)
<b>Net change in total pension liability</b>	<b>250,249,060</b>	<b>1,573,374,938</b>	<b>(169,207,149)</b>	<b>228,815,372</b>	<b>598,423,523</b>	<b>783,711,199</b>	<b>498,847,261</b>	<b>465,309,653</b>	<b>1,083,334,062</b>
<b>Total pension liability - beginning</b>	<b>13,866,370,185</b>	<b>12,292,995,247</b>	<b>12,462,202,396</b>	<b>12,233,387,024</b>	<b>11,634,963,501</b>	<b>10,851,252,302</b>	<b>10,352,405,041</b>	<b>9,887,095,388</b>	<b>8,803,761,326</b>
<b>Total pension liability - ending</b>	<b>14,116,619,245</b>	<b>13,866,370,185</b>	<b>12,292,995,247</b>	<b>12,462,202,396</b>	<b>12,233,387,024</b>	<b>11,634,963,501</b>	<b>10,851,252,302</b>	<b>10,352,405,041</b>	<b>9,887,095,388</b>
<b>Plan fiduciary net position</b>									
Contributions - employer	143,270,826	136,159,432	131,681,949	127,572,348	124,734,270	121,907,646	114,090,075	109,549,977	104,952,985
Contributions - member	143,041,545	136,159,404	131,541,783	127,454,956	124,262,387	122,144,961	114,443,295	110,152,580	106,175,381
Net investment income	(91,538,866)	2,672,026,722	192,238,245	583,573,718	911,695,475	1,431,977,414	22,836,265	435,682,659	1,695,543,796
Benefit payments, including refunds	(696,040,676)	(661,208,044)	(625,796,378)	(596,424,723)	(564,141,147)	(541,090,032)	(510,496,482)	(482,494,871)	(450,490,712)
Administrative expense	(4,862,000)	(4,905,128)	(5,127,029)	(5,095,897)	(4,870,334)	(4,363,512)	(3,944,641)	(3,911,222)	(3,853,073)
Department of Labor and Regulation Plan Merger	-	56,628,426	-	-	-	-	-	-	69,519,407
<b>Net change in plan fiduciary net position</b>	<b>(506,129,171)</b>	<b>2,334,860,812</b>	<b>(175,461,430)</b>	<b>237,080,402</b>	<b>591,680,651</b>	<b>1,130,576,477</b>	<b>(263,071,488)</b>	<b>168,979,123</b>	<b>1,521,847,784</b>
<b>Plan fiduciary net position - beginning</b>	<b>14,632,199,039</b>	<b>12,297,338,227</b>	<b>12,472,799,657</b>	<b>12,235,719,255</b>	<b>11,644,038,604</b>	<b>10,513,462,127</b>	<b>10,776,533,615</b>	<b>10,607,554,492</b>	<b>9,085,706,708</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 14,126,069,868</b>	<b>\$ 14,632,199,039</b>	<b>\$ 12,297,338,227</b>	<b>\$ 12,472,799,657</b>	<b>\$ 12,235,719,255</b>	<b>\$ 11,644,038,604</b>	<b>\$ 10,513,462,127</b>	<b>\$ 10,776,533,615</b>	<b>\$ 10,607,554,492</b>
<b>System's net pension liability(asset) - ending</b>	<b>\$ (9,450,623)</b>	<b>\$ (765,828,854)</b>	<b>\$ (4,342,980)</b>	<b>\$ (10,597,261)</b>	<b>\$ (2,332,231)</b>	<b>\$ (9,075,103)</b>	<b>\$ 337,790,175</b>	<b>\$ (424,128,574)</b>	<b>\$ (720,459,104)</b>

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 Schedules of Required Supplementary Information

## SOUTH DAKOTA RETIREMENT SYSTEM

### Schedule of Required Supplementary Information

June 30, 2022

#### SCHEDULE OF SYSTEM'S NET PENSION LIABILITY (ASSET)

Last Fiscal Year

	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>SCHEDULE OF SYSTEM'S NET PENSION LIABILITY (ASSET)</b>									
Total pension liability	\$ 14,116,619,245	\$ 13,866,370,185	\$ 12,292,995,247	\$ 12,462,202,396	\$ 12,233,387,024	\$ 11,634,963,501	\$ 10,851,252,302	\$ 10,352,405,041	\$ 9,887,095,388
Plan fiduciary net position	14,126,069,868	14,632,199,039	12,297,338,227	12,472,799,657	12,235,719,255	11,644,038,604	10,513,462,127	10,776,533,615	10,607,554,492
System's net pension liability (asset)	<u>\$ (9,450,623)</u>	<u>\$ (765,828,854)</u>	<u>\$ (4,342,980)</u>	<u>\$ (10,597,261)</u>	<u>\$ (2,332,231)</u>	<u>\$ (9,075,103)</u>	<u>\$ 337,790,175</u>	<u>\$ (424,128,574)</u>	<u>\$ (720,459,104)</u>
Plan fiduciary net position as a percentage of the									
Total pension liability	100.07%	105.52%	100.04%	100.09%	100.02%	100.08%	96.89%	104.10%	107.29%
Actuarial projected covered payroll	\$ 2,300,011,798	\$ 2,186,209,401	\$ 2,115,630,733	\$ 2,048,204,895	\$ 2,001,885,527	\$ 1,954,735,217	\$ 1,829,641,009	\$ 1,758,315,755	\$ 1,685,627,785
System's net pension liability (asset) as a percentage of covered payroll	-0.411%	-35.030%	-0.205%	-0.517%	-0.117%	-0.464%	18.462%	-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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 143,270,826	\$ 136,159,432	\$ 131,681,949	\$ 127,572,348	\$ 124,734,270	\$ 121,907,646	\$ 114,090,075	\$ 109,549,977	\$ 103,483,647
Contributions in relation to the actuarially determined contribution	143,270,826	136,159,432	131,681,949	127,572,348	124,734,270	121,907,646	114,090,075	109,549,977	104,952,985
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,469,338)</u>
Reported covered payroll	\$ 2,300,011,798	\$ 2,186,209,401	\$ 2,115,630,733	\$ 2,048,204,895	\$ 2,001,885,527	\$ 1,954,735,217	\$ 1,829,641,099	\$ 1,758,315,755	\$ 1,685,627,785
Contributions as a percentage of covered payroll	6.229%	6.228%	6.224%	6.228%	6.231%	6.237%	6.236%	6.230%	6.226%

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, 2022

### SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate or return, net of investment expenses	-0.64%	22.01%	1.56%	4.84%	7.95%	13.84%	0.21%	4.17%	18.91%	19.01%
Annual time-weighted rate or return, net of investment expenses	-0.69%	22.03%	1.59%	4.88%	7.94%	13.81%	0.30%	4.18%	18.90%	19.02%

See Notes to Required Supplementary Information

## SOUTH DAKOTA RETIREMENT SYSTEM

### Notes to Schedules of Required Supplementary Information

June 30, 2022

*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:

**Actuarial Assumptions** – The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded by years of service from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50%, net of pension plan investment expenses
Future COLAS	2.10%

All mortality rates were based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement Scale MP-2020.

Active and Terminated Vested Members are as follows:

Teachers, Certified Regents, and Judicial: PubT-2010  
Other Class A Members: PubG-2010  
Public Safety Members: PubS-2010

Retired Members are as follows:

Teacher, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65  
Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above  
Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries are as follows:

PubG-2010 contingent survivor mortality table

Disabled Members are as follows:

Public Safety: PubS-2010 disabled member mortality table  
Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.



Other Supplementary Information  
June 30, 2022

# South Dakota Retirement System



**SOUTH DAKOTA RETIREMENT SYSTEM**

Other Supplementary Information

Year Ended June 30, 2022

**Schedule of Administrative Expenses**

Personal services:	
Salary and per diem	\$ 2,239,730
Employee benefits	<u>573,117</u>
Total personal services	<u>2,812,847</u>
Operating expenses:	
Travel	<u>62,068</u>
Contractual services:	
Audit	109,500
Valuations	64,300
Consulting	87,551
Legal	10,519
Operations	<u>1,114,730</u>
Total contractual services	<u>1,386,600</u>
Supplies and materials	330,219
Capital assets	<u>270,266</u>
Total operating expenses	<u>2,049,153</u>
Total administrative expenses	<u><u>\$ 4,862,000</u></u>

**SOUTH DAKOTA RETIREMENT SYSTEM**

Other Supplementary Information

Year Ended June 30, 2022

**Schedule of Investment Activity Expenses**

Investment Category	
Fixed Income	\$ 13,344,009
Equity	653,785
Real Estate	19,301,489
Private Equity	<u>18,867,669</u>
Total investment activity expenses	<u>\$ 52,166,952</u>

**Schedule of Payments to Consultants**

Investment Management Fees	\$ 42,777,909
Actuarial	87,551
Audit	109,500
Legal	5,884
Valuations	<u>64,300</u>
Total paid to consultants	<u>\$ 43,045,144</u>



**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, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2022.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

## **Report on 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 financial statements. 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  
October 27, 2022



Financial Statements  
June 30, 2022

**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 Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of pension of the South Dakota Retirement System Supplemental Retirement Plan (SRP or the Plan), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Supplemental Retirement Plan, as of June 30, 2022, and the respective statement of changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SDRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 27, 2022, 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 solely 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 the effectiveness of SDRS's 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 the Plan's internal control over financial reporting and compliance.

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

Boise, Idaho  
October 27, 2022



# **SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN**

## **Management's Discussion and Analysis**

June 30, 2022

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, 2022. This section is intended to supplement the SRP financial statements.

### **Financial Highlights**

- \* The net position available for plan benefits of the SRP decreased by \$43 million during fiscal year 2022. This decrease was primarily attributable to investment losses during the year and offset by contributions outweighing distributions to participants.
- \* The SRP paid \$22.5 million to benefit recipients in fiscal year 2022 compared to \$21.0 million in 2021. The SRP received \$50.6 million in contributions in fiscal year 2022 compared to \$36.4 million in 2021.

### **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, 2022, 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, 2022

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

**Summary of Fiduciary Net Position**

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Investments, at fair value	\$ 539,876,683	\$ 583,318,439
Cash	789,137	739,334
Accounts receivable	223,807	293,275
Accrued interest	407	922
Contributions receivable	<u>1,224,763</u>	<u>1,732,651</u>
Total assets	542,114,797	586,084,621
Liabilities		
Accounts payable	<u>82,836</u>	<u>90,255</u>
Net position held in trust for plan benefits	<u><u>\$ 542,031,961</u></u>	<u><u>\$ 585,994,366</u></u>

## SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

### Management's Discussion and Analysis

June 30, 2022

#### 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 2022, SRP paid \$23.4 million to benefit recipients, or 6.90 percent more than 2021.

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

#### Summary of Changes in Fiduciary Net Position

June 30, 2022 and 2021

	2022	2021	Percentage Change
Additions			
Contributions-employee	\$ 50,568,589	\$ 36,419,350	38.85%
Investment income (loss)	(71,578,770)	120,310,242	-159.50%
Other loss	(69,468)	(56,412)	23.14%
Transfers from related plan	593,910	517,824	14.69%
Total additions	(20,485,739)	157,191,004	-113.03%
Deductions			
Distributions to participants	22,463,252	21,012,910	6.90%
Administrative expenses	1,006,728	931,731	8.05%
Transfers to related plan	6,686	43,898	100.00%
Total deductions	23,476,666	21,988,539	6.77%
Net change in net position	(43,962,405)	135,202,465	-132.52%
Plan net position held in trust for plan benefits:			
Beginning of year	585,994,366	450,791,901	29.99%
End of year	\$ 542,031,961	\$ 585,994,366	-7.50%

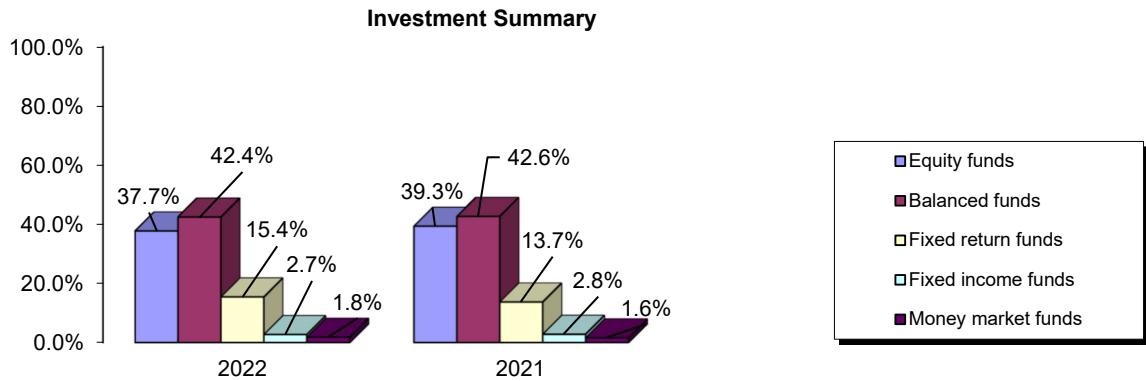
# SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

## Management's Discussion and Analysis

June 30, 2022

### 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 222 East Capitol Ave, Suite 1, Pierre SD 57501. You may reach the SRP at (605) 224-2230, 1 (800) 959-4457, or online at [www.srp457.com](http://www.srp457.com). You may link to the SRP Web site from the SDRS Web site at [www.state.sd.us/sdrs/](http://www.state.sd.us/sdrs/).

**SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN**

Statement of Fiduciary Net Position

June 30, 2022

Assets

Investments, at fair value:

Equity funds	\$ 204,299,059
Balanced funds	228,070,819
Fixed return funds	83,305,526
Fixed income funds	14,504,340
Money market funds	<u>9,696,939</u>

Total investments, at fair value 539,876,683

Cash 789,137

Accounts receivable 223,807

Accrued interest 407

Contributions receivable 1,224,763

Total assets 542,114,797

Liabilities

Accounts payable 82,836

Net position held in trust for plan benefits \$ 542,031,961

See accompanying notes to financial statements.

**SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN**

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2022

Additions	
Contributions-employee	\$ 50,568,589
Investment loss	(71,578,770)
Other income (loss)	(69,468)
Transfers from related plan	<u>593,910</u>
Total additions	<u>(20,485,739)</u>
Deductions	
Distributions to participants	22,463,252
Administrative expenses	1,006,728
Transfers to related plan	<u>6,686</u>
Total deductions	<u>23,476,666</u>
Net change in plan net position	(43,962,405)
Net position held in trust for plan benefits	
Beginning of year	<u>585,994,366</u>
End of year	<u>\$ 542,031,961</u>

See accompanying notes to financial statements.

# SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

## Notes to Financial Statements

June 30, 2022

### (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 33,956 participants and 367 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 \$20,500 for calendar year 2022 or 100 percent 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 \$6,500.

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 (\$41,000 in 2022) 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.

## **SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN**

### Notes to Financial Statements

June 30, 2022

**(d) *Distribution to Participants***

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

**(e) *Vesting***

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

**(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 reported at fair value, in accordance with GASB Statement No. 72. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 sets forth the framework for measuring value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Valuation inputs are quoted prices in active markets for identical asset or liability as of the measurement date.

Level 2 – Valuation inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Valuation inputs are based on significant unobservable inputs for an asset or liability.



## SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

### Notes to Financial Statements

June 30, 2022

As a practical expedient, GASB 72 allows the net asset value (NAV) or its equivalent to be used when a readily determinable fair value is not available. The NAV valuations are based on valuations of the underlying companies as determined and reported by the fund manager or general partner and are excluded from the fair value hierarchy.

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Mutual funds	\$ 442,066,817	\$ 442,066,817	\$ -	\$ -
Fixed income and return funds	97,809,866	14,504,340	-	83,305,526
Investments at fair value	\$ 539,876,683	\$ 456,571,157	\$ -	\$ 83,305,526

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 percent 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.

Investments denominated in foreign currencies are translated into USD using the year-end spot foreign currency exchange rates. Foreign exchange rate gains and losses are included with the net appreciation in fair value of investments.

## SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

### Notes to Financial Statements

June 30, 2022

Changes in fiduciary net position for the year ended June 30, 2022 by investment alternatives available to participants were as follows:

	Beginning balance	Contributions	Investment Income	Transfers In/Out	Additions/ Deductions	Ending balance	Fair value as a percentage of plan assets
Money Market							
Vanguard Treasury Money Market	\$ 1,307	\$ 800	\$ 1	\$ -	\$ (2,108)	\$ -	0.00%
Vanguard Federal Money Market	9,192,040	1,414,025	16,153	-	(925,279)	9,696,939	1.79%
	9,193,347	1,414,825	16,154	-	(927,387)	9,696,939	1.79%
Fixed Return:							
<b>Prudential</b>	<b>79,858,528</b>	<b>4,041,411</b>	<b>2,407,344</b>	<b>319,513</b>	<b>(3,321,270)</b>	<b>83,305,526</b>	<b>15.37%</b>
Fixed Income							
Vanguard Bond Market	16,168,552	819,969	(1,662,424)	14,135	(835,892)	14,504,340	2.68%
Balanced							
* Vanguard InstTrgtRtrmlnc Inst	10,111,810	90,872	(151,069)	3,750	(10,055,363)	-	0.00%
* Vanguard InstTrgRtrm2015 Inst	20,204,477	748,357	(346,303)	55,832	(20,662,363)	-	0.00%
* Vanguard InstTrgRtrm2020 Inst	39,605,912	1,449,559	(639,189)	10,373	(40,426,655)	-	0.00%
* Vanguard InstTrgRtrm2025 Inst	46,193,623	2,229,289	(831,596)	6,344	(47,597,660)	-	0.00%
* Vanguard InstTrgRtrm2030 Inst	37,859,899	3,236,809	(722,016)	-	(40,374,692)	-	0.00%
* Vanguard InstTrgRtrm2035 Inst	22,488,754	2,348,670	(390,147)	-	(24,447,277)	-	0.00%
* Vanguard InstTrgRtrm2040 Inst	18,660,380	2,412,713	(303,950)	-	(20,769,143)	-	0.00%
* Vanguard InstTrgRtrm2045 Inst	19,868,992	2,160,305	(290,881)	-	(21,738,416)	-	0.00%
* Vanguard InstTrgRtrm2050 Inst	19,411,103	2,031,004	(266,567)	-	(21,175,540)	-	0.00%
* Vanguard InstTrgRtrm2055 Inst	10,492,892	1,448,165	(155,633)	-	(11,785,424)	-	0.00%
* Vanguard InstTrgRtrm2060 Inst	3,440,993	629,604	(48,814)	-	(4,021,783)	-	0.00%
* Vanguard InstTrgRtrm2065 Inst	377,227	80,346	(6,182)	-	(451,391)	-	0.00%
* Vanguard Trgt Rtrmt 2015 Inv	-	133,147	(1,628,987)	-	18,605,125	17,109,285	3.16%
* <b>Vanguard Trgt Rtrmt 2020 Inv</b>	-	<b>805,987</b>	<b>(3,744,308)</b>	-	<b>35,712,668</b>	<b>32,774,347</b>	<b>6.05%</b>
* <b>Vanguard Trgt Rtrmt 2025 Inv</b>	-	<b>1,576,884</b>	<b>(5,370,060)</b>	-	<b>45,410,224</b>	<b>41,617,048</b>	<b>7.68%</b>
* <b>Vanguard Trgt Rtrmt 2030 Inv</b>	-	<b>1,598,991</b>	<b>(5,132,374)</b>	-	<b>40,237,311</b>	<b>36,703,928</b>	<b>6.77%</b>
* Vanguard Trgt Rtrmt 2035 Inv	-	1,164,976	(3,261,707)	-	24,324,998	22,228,267	4.10%
* Vanguard Trgt Rtrmt 2040 Inv	-	982,468	(2,747,466)	-	19,353,144	17,588,146	3.24%
* Vanguard Trgt Rtrmt 2045 Inv	-	1,061,897	(3,124,222)	-	21,152,144	19,089,819	3.52%
* Vanguard Trgt Rtrmt 2050 Inv	-	968,530	(3,059,630)	-	20,469,378	18,378,278	3.39%
* Vanguard Trgt Rtrmt 2055 Inv	-	754,170	(1,725,495)	-	11,527,394	10,556,069	1.95%
* Vanguard Trgt Rtrmt 2060 Inv	-	357,804	(571,901)	-	3,703,839	3,489,742	0.64%
* Vanguard Trgt Rtrmt 2065 Inv	-	55,728	(60,670)	-	344,321	339,379	0.06%
* Vanguard Trgt Rtrmt Inc	-	116,792	(758,306)	-	8,838,025	8,196,511	1.51%
Total Balanced	248,716,062	28,443,067	(35,337,473)	76,299	(13,827,136)	228,070,819	42.08%

## SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

### Notes to Financial Statements

June 30, 2022

	Beginning balance	Contributions	Investment Income	Transfers In/Out	Additions/ Deductions	Ending balance	Fair value as a percentage of plan assets
Equity							
* Vanguard Growth Indx Adml	6,679,606	3,734,649	549,890	5,977	(10,970,122)	-	0.00%
* Vanguard Growth Indx Inst	-	551,043	(3,133,914)	-	11,583,369	9,000,498	1.66%
* Vanguard Value Indx Adml	1,430,441	508,467	(95,399)	-	399,226	2,242,735	0.41%
* <b>Windsor II Admiral</b>	<b>39,833,040</b>	<b>653,999</b>	<b>(4,033,726)</b>	<b>5,563</b>	<b>(577,486)</b>	<b>35,881,390</b>	<b>6.62%</b>
* <b>Vanguard Instit Index</b>	<b>77,498,861</b>	<b>2,901,902</b>	<b>(8,208,508)</b>	<b>3,750</b>	<b>(2,861,898)</b>	<b>69,334,107</b>	<b>12.79%</b>
* Vanguard Tot Intl Stock Ind	11,187,946	1,048,028	(2,294,643)	-	25,845	9,967,176	1.84%
* TRowePr Real Asst	-	4,901	(19,254)	-	122,002	107,649	0.02%
* Vanguard RealEst Indx Adml	-	13,658	(39,035)	-	416,454	391,077	0.07%
* Dodge Cox Global Stock	2,108,300	141,991	(228,548)	-	741,708	2,763,451	0.51%
* Dodge & Cox Int Stock Fnd	3,256,658	162,384	(374,701)	-	24,099	3,068,440	0.57%
* Growth Fund of America	24,656,231	1,263,491	(6,115,277)	114,629	(1,320,094)	18,598,980	3.43%
* Capital World Grth & Inc	8,982,500	460,269	(1,544,147)	1,880	(834,548)	7,065,954	1.30%
* Vanguard Small Cap Index Fd AS	7,838,586	280,045	93,293	672	(8,212,596)	-	0.00%
* Vanguard Small Cap Indx Inst	-	440,249	(1,795,121)	-	7,956,150	6,601,278	1.22%
* Vanguard Ext Mkt Idx Inst	25,157,165	1,268,990	(7,491,150)	39,384	(1,695,343)	17,279,046	3.19%
* Vanguard Wlsly Inc Adml	12,931,740	2,316,601	(1,140,038)	4,750	460,981	14,574,034	2.69%
* Vanguard Strategic Equity	7,820,876	557,657	(1,132,500)	672	176,539	7,423,244	1.37%
Total Equity	229,381,950	16,308,324	(37,002,778)	177,277	(4,565,714)	204,299,059	37.69%
Total Investments	583,318,439	51,027,596	(71,579,177)	587,224	(23,477,399)	539,876,683	99.60%
Other Assets	2,675,927	(459,007)	(69,061)	-	7,419	2,155,278	0.40%
Total Fiduciary Net Position	\$ 585,994,366	\$ 50,568,589	\$ (71,648,238)	\$ 587,224	\$ (23,469,980)	\$ 542,031,961	100.00%

*Investments in bold represent investments exceeding 5 percent or more of net position as of June 30, 2022. Investments with an asterisk (\*) represent investments with international mutual funds.*

### ***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 percent and 130 percent of the duration.

## SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

### Notes to Financial Statements

June 30, 2022

As of June 30, 2022, 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:

	<u>Fair Value</u>	<u>Ave Credit Quality</u>	<u>Duration (in years)</u>
Money Market			
Vanguard Federal Money Market	\$ 2,235,144	Unrated	
Fixed Income			
Vanguard Total Bond Market Index	14,270,209	AA	8.90
Balanced			
Vanguard InstTrgRtrm2015 Inst	37,419	Unrated	
Vanguard InstTrgRtrm2020 Inst	5,657	A	7.76
Vanguard InstTrgRtrm2025 Inst	2,755	A	8.49
Vanguard Trgt Rtrmt Inc	5,551,497	A	7.42
Equity			
Growth Fund of America	635	Unrated	
Capital World Grth & Inc	19,790	Unrated	
Vanguard Wsly Inc Adml	8,327,401	Unrated	
	<u>\$ 30,450,507</u>		

**(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, 2022, 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:	
A	\$ 5,559,909
AA	14,270,209
Unrated	10,620,389
Total	<u>30,450,507</u>
Fixed Income presented in balanced and equity funds	15,946,167
Fixed Income per Statement of Net Position	<u>\$ 14,504,340</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 percent are identified in bold on pages 53 and 54.

## **SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN**

### Notes to Financial Statements

June 30, 2022

#### ***(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 U.S. that invest in securities not required to disclose the individual assets within the fund. The fair value of these investments was \$80,548,487 as of June 30, 2022. International mutual funds are marked with asterisk on pages 53 and 54.

#### **(4) Plan Administration**

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

#### **(5) Federal Income Tax Status**

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

#### **(6) Plan Termination**

Although they have not expressed any intent to do so, the South Dakota Retirement System 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 percent 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, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2022.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

## **Report on 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 financial statements. 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 cursive script that reads "Eide Bailly LLP".

Boise, Idaho  
October 27, 2022



Financial Statements  
June 30, 2022

**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 Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of pension of the South Dakota Retirement System Supplemental Pay Plan (SPP or the Plan), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Supplemental Pay Plan, as of June 30, 2022, and the respective statement of changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SDRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS *and Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 27, 2022, 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 solely 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 the effectiveness of SDRS's 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 the Plan's internal control over financial reporting and compliance.

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

Boise, Idaho  
October 27, 2022

# **SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN**

## **Management's Discussion and Analysis**

June 30, 2022

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, 2022. 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 \$4.4 million during fiscal year 2022. This increase was primarily attributable to additional participant contributions and investment gains.
- The SPP paid \$7.8 million to benefit recipients in fiscal year 2022 compared to \$8.0 million in 2021. The SPP received \$12.7 million in contributions in fiscal year 2022 compared to \$12.7 million in 2021.

### **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, 2022, 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, 2022

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

**Summary of Fiduciary Net Position**

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Investments, at fair value	\$ 75,483,383	\$ 71,140,113
Cash	735,201	1,394,873
Revenue sharing receivable	61,145	59,840
Accrued interest	38	342
Contributions receivable	<u>1,795,020</u>	<u>1,077,453</u>
Total assets	78,074,787	73,672,621
Liabilities		
Accounts payable	<u>10,170</u>	<u>9,405</u>
Net position held in trust for plan benefits	<u><u>\$ 78,064,617</u></u>	<u><u>\$ 73,663,216</u></u>

**SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN**

Management’s Discussion and Analysis

June 30, 2022

**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 2022, SPP paid \$7.8 million to benefit recipients, or 1.9 percent less than 2021.

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

**Summary of Changes in Fiduciary Net Position**

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>Percentage Change</u>
Additions			
Contributions-employee	\$ 12,696,964	\$ 12,685,254	0.09%
Investment income	208,282	4,251,445	-95.10%
Revenue sharing	1,305	626	100.00%
Other income	<u>40,320</u>	<u>39,285</u>	2.63%
Total additions	<u>12,946,871</u>	<u>16,976,610</u>	-23.74%
Transfers from related plan	<u>6,686</u>	<u>43,898</u>	100.00%
Deductions			
Distributions to participants	7,808,654	7,962,148	-1.93%
Administrative expenses	<u>149,592</u>	<u>138,990</u>	7.63%
Total deductions	<u>7,958,246</u>	<u>8,101,138</u>	-1.76%
Transfers to related plan	<u>593,910</u>	<u>517,824</u>	14.69%
Net change in plan net position	<u>4,401,401</u>	<u>8,401,546</u>	-47.61%
Net position held in trust for plan benefits:			
Beginning of year	<u>73,663,216</u>	<u>65,261,670</u>	12.87%
End of year	<u>\$ 78,064,617</u>	<u>\$ 73,663,216</u>	5.98%

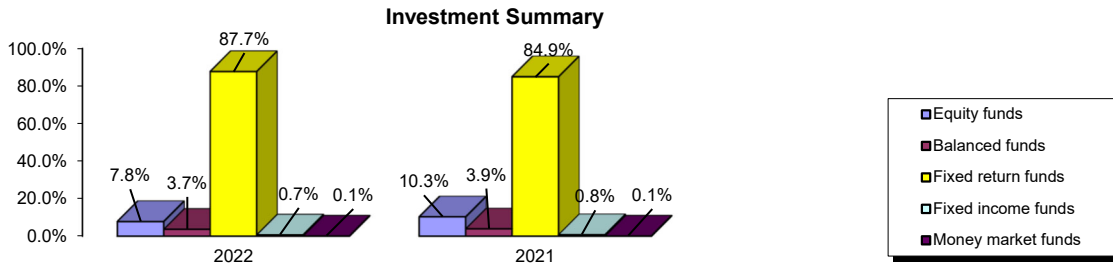
# SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

## Management's Discussion and Analysis

June 30, 2022

### 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 222 East Capitol Ave, Suite 1, 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, 2022

Assets

Investments, at fair value:

Equity funds	\$ 5,898,112
Balanced funds	2,767,568
Fixed return funds	66,213,840
Fixed income funds	515,440
Money market funds	<u>88,423</u>

Total investments, at fair value 75,483,383

Cash 735,201

Revenue sharing receivable 61,145

Accrued interest 38

Contributions receivable 1,795,020

Total assets 78,074,787

Liabilities

Accounts payable 10,170

Net position held in trust for plan benefits \$ 78,064,617

See accompanying notes to financial statements.



## SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

### Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2022

Additions	
Contributions	\$ 12,696,964
Investment income	208,282
Revenue sharing	1,305
Other income	<u>40,320</u>
Total additions	<u>12,946,871</u>
Transfers from related plan	<u>6,686</u>
Deductions	
Distributions to participants	7,808,654
Administrative expenses	<u>149,592</u>
Total deductions	<u>7,958,246</u>
Transfers to related plan	<u>593,910</u>
Net change in plan net position	4,401,401
Net position held in trust for plan benefits:	
Beginning of year	<u>73,663,216</u>
End of year	<u><u>\$ 78,064,617</u></u>

See accompanying notes to financial statements.

## SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2022

### **(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 4,435 participants and 141 employers. The Plan mandates that qualifying employees (over age 55 and \$600 or more in special pay) of participating units defer 100 percent 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 percent of their one-time, lump-sum special pay associated with their termination or \$61,000 for calendar year 2022.

#### **(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, 2022

**(e) *Risks and Uncertainties***

The Plan invests in various investment securities. These securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain 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 reported at fair value, in accordance with GASB Statement No. 72. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 sets forth the framework for measuring value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Valuation inputs are quoted prices in active markets for identical asset or liability as of the measurement date.

Level 2 – Valuation inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Valuation inputs are based on significant unobservable inputs for an asset or liability.

**SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN**

Notes to Financial Statements

June 30, 2022

As a practical expedient, GASB 72 allows the net asset value (NAV) or its equivalent to be used when a readily determinable fair value is not available. The NAV valuations are based on valuations of the underlying companies as determined and reported by the fund manager or general partner and are excluded from the fair value hierarchy.

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Mutual funds	\$ 8,754,104	\$ 8,754,104	\$ -	\$ -
Fixed income funds	66,729,279	-	-	66,729,279
Investments at fair value	<u>\$ 75,483,383</u>	<u>\$ 8,754,104</u>	<u>\$ -</u>	<u>\$ 66,729,279</u>

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 percent 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.

Investments denominated in foreign currencies are translated into USD using the year-end spot foreign currency exchange rates. Foreign exchange rate gains and losses are included with the net appreciation in fair value of investments.

**SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN**

Notes to Financial Statements

June 30, 2022

Changes in fiduciary net position for the year ended June 30, 2022 by investment alternatives available to participants were as follows:

	Beginning Balance	Contributions	Investment Income	Transfers In/Out	Additions/ Deductions	Ending Balance	Fair Value as a Percentage of Plan Assets
Money Market							
Vanguard Federal	\$ 43,741	\$ 8,728	\$ 139	\$ -	\$ 35,815	88,423	0.11%
Fixed Return:							
<b>Prudential</b>	<b>60,439,412</b>	<b>12,545,633</b>	<b>1,851,531</b>	<b>(405,203)</b>	<b>(8,217,533)</b>	66,213,840	<b>84.82%</b>
Fixed Income							
Vanguard Bond Market	533,406	7,437	(59,687)	(14,135)	48,419	515,440	0.66%
Balanced							
Vngrd InstTrgtRtrmInc Inst	615,780	-	(8,380)	-	(607,400)	-	0.00%
Vngrd InstTrgtRtrm2015 Inst	342,276	-	(6,716)	(6,179)	(329,381)	-	0.00%
Vngrd InstTrgtRtrm2020 Inst	351,884	10,828	(13,580)	(9,373)	(339,759)	-	0.00%
Vngrd InstTrgtRtrm2025 Inst	938,544	-	(18,721)	-	(919,823)	-	0.00%
Vngrd InstTrgtRtrm2030 Inst	283,845	1,103	(6,556)	-	(278,392)	-	0.00%
Vngrd InstTrgtRtrm2035 Inst	142,268	-	(2,123)	-	(140,145)	-	0.00%
Vngrd InstTrgtRtrm2040 Inst	38,820	19,577	(1,834)	-	(56,563)	-	0.00%
Vngrd InstTrgtRtrm2045 Inst	46,589	-	(549)	-	(46,040)	-	0.00%
Vngrd InstTrgtRtrm2050 Inst	37,532	-	(414)	-	(37,118)	-	0.00%
Vngrd Trgt Rtrmt 2015 Inv	-	-	(28,906)	-	295,500	266,594	0.34%
Vngrd Trgt Rtrmt 2020 Inv	-	-	(52,264)	-	516,226	463,962	0.59%
Vngrd Trgt Rtrmt 2025 Inv	-	-	(114,799)	-	991,819	877,020	1.12%
Vngrd Trgt Rtrmt 2030 Inv	-	-	(45,138)	-	365,209	320,071	0.41%
Vngrd Trgt Rtrmt 2035 Inv	-	-	(18,131)	-	139,587	121,456	0.16%
Vngrd Trgt Rtrmt 2040 Inv	-	-	(11,470)	-	84,588	73,118	0.09%
Vngrd Trgt Rtrmt 2045 Inv	-	31,254	(7,872)	-	58,551	81,933	0.10%
Vngrd Trgt Rtrmt 2050 Inv	-	-	(6,673)	-	48,482	41,809	0.05%
Vngrd Trgt Rtrmt 2055 Inv	-	-	(1,507)	-	12,584	11,077	0.01%
Vngrd Trgt Rtrmt 2060 Inv	-	-	(1,507)	-	12,584	11,077	0.01%
Vngrd Trgt Rtrmt 2065 Inv	-	-	(1,507)	-	12,584	11,077	0.01%
Vngrd Trgt Rtrmt Inc	-	-	(45,123)	-	533,497	488,374	0.63%
<b>Total Balanced</b>	<b>2,797,538</b>	<b>62,762</b>	<b>(393,770)</b>	<b>(15,552)</b>	<b>316,590</b>	<b>2,767,568</b>	<b>3.55%</b>

## SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

### Notes to Financial Statements

June 30, 2022

	Beginning Balance	Contributions	Investment Income	Transfers In/Out	Additions/ Deductions	Ending Balance	Fair Value as a Percentage of Plan Assets
Equity							
Dodge and Cox Int Stock Fd	45,411	572	(5,772)	-	7,979	48,190	0.06%
DodgeCox Global Stock	149,726	-	(12,185)	-	1,777	139,318	0.18%
TRowePr Real Asst	-	-	(5,223)	-	39,985	34,762	0.04%
Vanguard RealEst Indx Adml	-	-	(1,781)	-	13,064	11,283	0.01%
Am Funds Capital World Grth &	169,577	572	(28,815)	-	(11,049)	130,285	0.17%
Vanguard Ext Mkt Ind Inst	1,077,635	-	(307,800)	(39,384)	(25,465)	704,986	0.90%
Growth Fund of America	1,049,412	572	(235,162)	(112,950)	11,208	713,080	0.91%
Windsor II Admiral	628,727	715	(56,850)	-	(60,843)	511,749	0.66%
Vanguard Small Cap Indx Fd AS	399,811	286	4,315	-	(404,412)	-	0.00%
Vanguard SmCap Indx Inst	-	-	(77,599)	-	321,925	244,326	0.31%
Vanguard Instit Index	1,563,701	1,001	(189,696)	-	142,420	1,517,426	1.94%
Vanguard Tot Intl Stock Ind	200,889	1,573	(38,851)	-	36,488	200,099	0.26%
Vanguard Wlsly Inc Adml	617,205	8,752	(42,706)	-	(50,868)	532,383	0.68%
Vanguard Gr Indx Adml	658,059	429	43,099	-	(701,587)	-	0.00%
Vanguard Gr Indx Inst	-	-	(187,250)	-	671,776	484,526	0.62%
Vanguard Val Indx Adml	443,027	572	(1,303)	-	(114,896)	327,400	0.42%
Vanguard Strategic Equity	322,836	572	(46,390)	-	21,281	298,299	0.38%
<b>Total Equity</b>	<b>7,326,016</b>	<b>15,616</b>	<b>(1,189,969)</b>	<b>(152,334)</b>	<b>(101,217)</b>	<b>5,898,112</b>	<b>7.56%</b>
Total Investments	71,140,113	12,640,176	208,244	(587,224)	(7,917,926)	75,483,383	96.69%
Other Assets	2,523,103	56,788	1,343	-	-	2,581,234	3.31%
<b>Total Fiduciary Net Position</b>	<b>\$ 73,663,216</b>	<b>\$ 12,696,964</b>	<b>\$ 209,587</b>	<b>\$ (587,224)</b>	<b>\$ (7,917,926)</b>	<b>\$ 78,064,617</b>	<b>100.00%</b>

Investments in bold represent investments exceeding 5 percent or more of net position as of June 30, 2022.

## **SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN**

### Notes to Financial Statements

June 30, 2022

#### **(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 System 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 percent 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, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2022.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

**Report on 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 financial



statements. 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  
October 27, 2022