



Financial Statements
June 30, 2024

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)	31
Schedule of System's Net Pension Liability (Asset)	32
Schedule of System's Contributions	32
Schedule of Investment Returns	33
Notes to Schedules of Required Supplementary Information	34
Other Supplementary Information	
Schedule of Administrative Expenses	35
Schedule of Investment Activity Expenses	36
Schedule of Payments to Consultants	36
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>	37

South Dakota Retirement System Supplemental Retirement Plan

Independent Auditor's Report	39
Management's Discussion and Analysis	42
Financial Statements	
Statement of Fiduciary Net Position	46
Statement of Changes in Fiduciary Net Position	47
Notes to Financial Statements	48
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>	55

South Dakota Retirement System Special Pay Plan

Independent Auditor's Report	57
Management's Discussion and Analysis	60
Financial Statements	
Statement of Fiduciary Net Position	64
Statement of Changes in Fiduciary Net Position	65
Notes to Financial Statements	66
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>	71



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, 2024, 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 fiduciary net position of the South Dakota Retirement System, a component unit of the State of South Dakota as of June 30, 2024, and the respective changes in fiduciary net position 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 (*Government Auditing Standards*). 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 \$3,535,967,150 (23.70 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SDRS's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinion. 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SDRS's ability to continue as a going concern for a reasonable period of time.

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, pension schedules, and notes to the required supplementary information 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 25, 2024, 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.



Boise, Idaho
October 25, 2024

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2024

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, 2024. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Financial Highlights

- The fiduciary net position of SDRS increased by \$422 million during fiscal year 2024. This increase was primarily due to the investment performance of 5.98 percent, which was below the assumed rate of 6.50 percent.
- SDRS paid \$735 million to SDRS benefit recipients in fiscal year 2024 compared to \$707 million in 2023.
- SDRS received \$335 million in SDRS member and employer contributions in fiscal year 2024 compared to \$309 million in 2023.

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, 2024, 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, 2024

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, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	\$ 9,072,379	\$ 8,457,920
Receivables	74,841,798	61,655,734
Investments, at fair value	14,841,283,609	14,453,695,128
Other assets	199,490	458,218
Due from brokers – futures transactions	10,053,575	-
Total assets	14,935,450,851	14,524,267,000
Liabilities		
Accounts payable and accrued expenses	3,499,470	2,444,505
Unsettled investment purchases	9,641,894	376,059
Due to brokers – futures transactions	-	20,993,332
Total liabilities	13,141,364	23,813,896
Net position restricted for pension benefits	\$ 14,922,309,487	\$ 14,500,453,104

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 6.50 percent at June 30, 2024. The net money-weighted investment returns were 5.98 percent for 2024 and 5.80 percent for 2023.

Deductions from fiduciary net position are primarily benefit payments. During 2024, SDRS paid \$735 million to benefit recipients or 4.02 percent more than 2023. The increase is due to the annual cost-of-living adjustment, which increased benefit 2.10 percent at the beginning of fiscal year 2024, and additional annuities. Refunds of accumulated contributions during 2024 increased 2.74 percent. Administrative costs of SDRS increased 5.40 percent during 2024.

SOUTH DAKOTA RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2024

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

Summary of Changes in Fiduciary Net Position

Years Ended June 30, 2024 and 2023

	2024	2023	Percentage change
Additions			
Employee contributions	\$ 167,162,702	\$ 153,798,895	8.69%
Employer contributions	168,329,948	154,761,704	8.77%
Investment income	856,068,350	806,061,088	6.20%
Total additions	1,191,561,000	1,114,621,687	6.90%
Deductions			
Benefits	735,491,608	707,072,236	4.02%
Refunds of contributions	28,776,190	28,008,011	2.74%
Administrative expenses	5,436,819	5,158,204	5.40%
Total deductions	769,704,617	740,238,451	3.98%
Net change in net position	421,856,383	374,383,236	12.68%
Plan net position restricted for pension benefits			
Beginning of year	14,500,453,104	14,126,069,868	2.65%
End of year	\$ 14,922,309,487	\$ 14,500,453,104	2.91%

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 money-weighted investment performance during 2024 and 2023 was 5.98 percent and 5.80 percent, respectively.

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

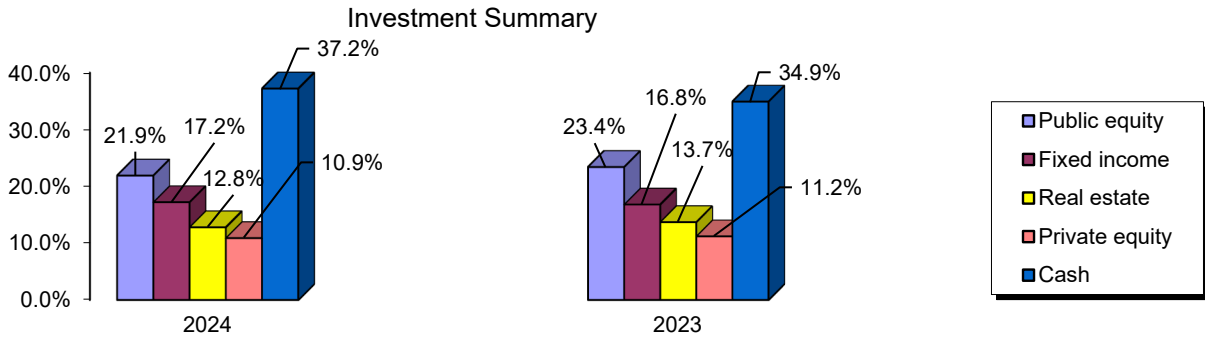
§4-5-27. Prudent-person standard required in investments. Any investments under the provisions of §4-5-12 to §4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in 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, 2024

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 ratio of 100.03%.

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.

SOUTH DAKOTA RETIREMENT SYSTEM

Statement of Fiduciary Net Position

June 30, 2024

Assets

Cash and cash equivalents	\$ 9,072,379
Receivables	
Employer	4,401,720
Employee	4,501,366
Benefits	246,357
Unsettled investment sales	6,268,322
Accrued interest and dividends	59,424,033
Total receivables	74,841,798
Investments, at fair value	
Fixed income	5,831,210,310
Equities	5,474,106,149
Real estate	1,914,896,750
Private equity	1,621,070,400
Total investments, at fair value	14,841,283,609
Due from brokers - futures transactions	10,053,575
Properties, at cost (net of accumulated depreciation of \$25,694)	9,827
Assets used in plan operations, at cost (net of accumulated depreciation of \$1,871,914)	170,174
Other assets	19,489
Total assets	14,935,450,851
Liabilities	
Accounts payable and accrued expenses	3,499,470
Unsettled investment purchases	9,641,894
Total liabilities	13,141,364
Net position held in trust for pension benefits	\$ 14,922,309,487

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2024

Additions

Contributions

Employee	\$ 167,162,702
Employer	168,329,948

335,492,650

Investment Income

From investing activities

Net increase in fair value of investments	535,455,481
Interest	257,929,479
Dividends	134,802,945
Real estate	(11,380,711)

916,807,194
(60,880,214)

855,926,980

From security lending activities

Security lending income	201,950
Security lending expenses	(60,580)

141,370

1,191,561,000

Deductions

Benefits	735,491,608
Refunds of contributions	28,776,190
Administrative expenses	5,436,819

769,704,617

Net change in net position 421,856,383

Net position held in trust for pension benefits:

Beginning of year 14,500,453,104

End of year \$ 14,922,309,487

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(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, 2024

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.

Class D Department of Labor and Regulation plan members entered SDRS on July 1, 2020, with benefits determined under the terms of the prior plan. All Class D members are currently retired and receiving benefits and are eligible for SDRS COLA.

Legislation enacted in 2017 and 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 3rd 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 3rd 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.

Legislation enacted in 2023 and reduced the minimum COLA from 0.5 percent to 0.0 percent.

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, 2024. 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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, (2) coverage of employee medical claims through the State's health insurance program, (3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and (4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Annual Comprehensive Financial Report.

As of June 30, 2024, the number of participating governmental employers is as follows:

School Districts	164
State of South Dakota	1
Board of Regents	1
Municipalities	171
Counties	66
Board and Commissions	<u>105</u>
 Total employers	 <u><u>508</u></u>

At June 30, 2024, SDRS membership consists of the following:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	31,591
Class B (public safety and judicial employees)	2,170
Class C (cement plant employees)	223
Class D (Department of Labor employees)	<u>135</u>
Total retirees and beneficiaries	<u>34,119</u>
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	24,564
Class B (public safety and judicial employees)	1,721
Class C (cement plant employees)	22
Class D (Department of Labor employees)	<u>-</u>
Total terminated members	<u>26,307</u>
Current active members:	
Vested:	
Class A (general employees)	29,830
Class B (public safety and judicial employees)	2,538
Class C (cement plant employees)	10
Class D (Department of Labor employees)	-
Nonvested:	
Class A (general employees)	9,417
Class B (public safety and judicial employees)	<u>1,078</u>
Total current active members	<u>42,873</u>
Grand total	<u><u>103,299</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

There are 76 class A and 9 class B public safety and judicial members or beneficiaries whose benefits are currently suspended but are entitled to future benefits. These members or beneficiaries are included as retirees and beneficiaries in their respective classes as listed.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

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

(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.

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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

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 \$3,535,967,150 (23.70 percent of net position) at June 30, 2024. 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 5.98 percent in 2024. 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.

(d) Subsequent Events

SDRS has evaluated subsequent events through October 25, 2024, the date which the financial statements were able to be issued and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

(3) Contributions and Reserves

(a) Contributions

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

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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

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).

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, 2024, 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 2024 totaling \$335,492,650 (\$167,162,702 employee, \$168,329,948 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:

	<u>Employer</u>	<u>Percentage contributed</u>
Year ending June 30:		
2024	\$ 168,329,948	100%
2023	154,761,704	100
2022	143,270,826	100
2021	136,159,432	100
2020	131,681,949	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 the assumed rate of return for the plan at the date the contract is initiated.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

Future payments will be received as follows:

	Employees
Year ending June 30:	
2025	\$ 21,575
2026	21,522
2027	20,321
2028	19,875
2029	16,828
Later	31,729
Deferred contributions receivable at June 30, 2024	\$ 131,850

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

The components of the net pension liability (asset) of the System at June 30, 2024, was as follows:

Total pension liability	\$14,918,261,510
Plan fiduciary net position	<u>(14,922,309,487)</u>
Net pension liability (asset)	<u>\$ (4,047,977)</u>

Fiduciary net position as a percentage of net pension liability (asset)	100.03%
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Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2024, 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 investment expenses. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLA's	1.71%

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

Active and Terminated Vested Members:

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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

Retired Members:

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:

PubG-2010 contingent survivor mortality table

Disabled Members:

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

The actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

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 (asset).

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	\$ 2,056,961,841	\$ (4,047,977)	\$ (1,690,596,002)

(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

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

of any portfolio on a trade date +2 business days basis. All portfolios as of June 30, 2024, meet policy guidelines. These deposits are not collateralized or covered by depository insurance. As a result, \$16,630,807 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 Person Rule (i.e., the council should use the same degree of care as a prudent person). 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. In addition, the long-term expected rate of return includes an expectation that a portion of the consistent, historical outperformance relative to expectations due to the dynamic asset allocation process will continue. 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, 2024, (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>
Public Equity	56.3 percent	3.6 percent
Investment Grade Debt	22.8 percent	2.3 percent
High Yield Debt	7.0 percent	2.8 percent
Real Estate	12.0 percent	4.0 percent
Cash	<u>1.9 percent</u>	0.8 percent
	100.0 percent	

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

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

	Cost	Fair Value
South Dakota Investment Council	\$ 9,729,152,298	\$ 11,070,949,766
Blackstone Capital Partners	59,671,790	107,205,281
Blackstone Energy Partners	96,714,703	173,119,045
Blackstone Real Estate Partners	1,020,386,557	1,156,707,979
Bridgewater	36,742,005	111,785,645
Brookfield Strategic Partners	255,233,810	296,238,368
Capital International	7,685,385	2,528,047
Carlyle	30,033,121	28,985,365
Cinven	172,553,240	231,558,066
CVC	209,339,914	283,340,746
EnCap Energy Capital	36,511,099	60,467,607
Lone Star Real Estate	138,295,759	116,756,778
Pinebridge	3,178,456	2,423,071
Riverstone	76,411,117	69,927,961
Rockpoint Real Estate	157,145,181	129,253,653
Sanders Capital	66,169,331	105,754,518
Silver Lake	386,903,654	661,515,211
Starwood Real Estate	206,876,430	215,939,972
Telsey	14,677,671	16,826,530
	\$ 12,703,681,521	\$ 14,841,283,609
Total		

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(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:

	<u>Fair value</u>	<u>(in years)</u>
Investment type:		
U.S. Treasuries	\$ 587,738,200	6.13
U.S. Treasury Bills	2,133,697,035	0.15
U.S. Treasury STRIPS	453,853,744	7.49
U.S. Agencies	35,769,015	2.98
Investment Grade Corporates	423,483,061	4.23
Bond Exchange Traded Funds	43,045,109	5.99
High-Yield Corporates	461,643,138	3.52
Agency Mortgage-Backed Securities	340,330,258	5.86
Total	<u>\$ 4,479,559,560</u>	2.92

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, 2024, 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 the Standards & Poor's Ratings, which is a change from prior years when Moody's Investor Services was used. There is no significant difference between the two firms.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

AAA	\$ 6,600,698
AA	331,454,246
A	210,340,733
BBB	138,307,862
BB	281,195,959
B	146,644,311
CCC	33,802,868
U.S. Government Guaranteed	3,288,167,773
Unrated	1,235,269,668
Total	\$ 5,671,784,118

(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, 2024 (excluding those issued by or explicitly guaranteed by the U.S. government).

(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, 2024, is as follows (in U.S. dollar fair value):

	Equities	Cash	Total
Currency:			
Australian Dollar	\$ 11,759,719	\$ 1,599,211	\$ 13,358,930
British Pound	164,933,121	1,527,979	166,461,100
Canadian Dollar	107,293,917	822,088	108,116,005
Danish Krone	5,462,365	37,801	5,500,166
Euro	346,652,095	4,410,003	351,062,098
Hong Kong Dollar	285,626	-	285,626
Japanese Yen	143,625,289	7,308,836	150,934,125
South Korean Won	97,387,580	-	97,387,580
Norwegian Krone	4,401,273	132,645	4,533,918
Singapore Dollar	3,780,278	46,607	3,826,885
Swedish Krona	11,193,339	45,230	11,238,569
Swiss Franc	143,832,985	693,138	144,526,123
Thai Baht	741,120	-	741,120
	\$ 1,041,348,707	\$ 16,623,538	\$ 1,057,972,245

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

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, 2024, was \$3,535,967,150. The total fair value of hedge funds investments managed by external managers was \$128,612,175.

(e) Return on Investments

During fiscal year 2024, SDRS's investments (including investments bought and sold, as well as held during the year) appreciated in value by \$535,455,481.

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.

Changes in Fair Value of Investments

Appreciation (Depreciation) in Fair Value of Investments:

Equities	\$ 400,368,904
Fixed Income	67,800,963
Real Estate	(46,832,743)
Private Equity	17,456,586
Change in Accrued Income	6,051,805
Total increase (decrease) in fair value	<u>444,845,515</u>

Realized Gain on Investments:

Equities	338,789,923
Fixed Income	(26,691,934)
Real Estate	(25,958,657)
Private Equity	133,395,441
Total net realized gains	<u>419,534,773</u>

Futures - change in unrealized gain (loss)	42,596,630
Futures - realized gain (loss)	<u>(371,521,437)</u>
Net loss on futures	<u>(328,924,807)</u>
Net appreciation in investments	<u><u>\$ 535,455,481</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(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.

The fair value of securities on loan as of June 30, 2024, was \$81,506,490 and the collateral held on the same date was \$84,013,075. 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, 2024, SDRS does not have custodial credit risk with regard to the security lending collateral.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(h) Fair Value Measurements and Applications

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

Investments Measured at Fair Value	6/30/2024	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
US Treasuries	\$ 587,738,200	\$ -	\$ 587,738,200	\$ -
US Treasury Bills	2,133,697,035	-	2,133,697,035	-
US Treasury STRIPS	453,853,744	-	453,853,744	-
US Agencies	35,769,015	-	35,769,015	-
Investment Grade Corporates	423,483,061	-	423,483,061	-
High-Yield Corporates	461,643,138	-	461,643,138	-
Bond ETF - Exchange traded funds	43,045,109	43,045,109	-	-
Agency Mortgage-Backed Securities	340,330,258	-	340,330,258	-
Total Fixed Income Securities	4,479,559,560	43,045,109	4,436,514,451	-
Equity Securities				
Domestic Stock	3,813,433,784	3,813,433,784	-	-
Depository Receipts	38,623,368	38,623,368	-	-
ETF - Exchange Traded Fund	561,863,627	561,863,627	-	-
International Stock	1,041,348,707	1,041,348,707	-	-
Preferred Stock	852,072	-	852,072	-
Stock Warrants	10,949	10,949	-	-
Total Equity Securities	5,456,132,507	5,455,280,435	852,072	-
Total Investments by Fair Value Level	\$ 9,935,692,067	\$ 5,498,325,544	\$ 4,437,366,523	\$ -
Investments Measured at Net Asset Value (NAV)				
Short Term Investment Funds	1,192,224,559			
Multi-Strategy Hedge Funds	128,612,175			
Alternative Investments				
Real Estate Funds	1,914,896,750			
Private Equity Funds	1,621,070,400			
Total alternative investments	3,535,967,150			
Investments, Measured at NAV	\$ 4,856,803,884			
Total Investments measured at fair value	\$ 14,792,495,951			
Plus: cash Held by Fund Managers	72,210,947			
Less: GL of FX Transactions	(1,884,721)			
Less: Accrued Monthly Interest	(21,538,568)			
	\$ 14,841,283,609			
Investment derivative instruments				
Futures Contracts	\$ 10,053,575	\$ 10,053,575	\$ -	\$ -
Foreign Exchange Forward Contracts (liability)	(1,884,721)	-	(1,884,721)	-
Total investment derivative instruments	\$ 8,168,854	\$ 10,053,575	\$ (1,884,721)	\$ -

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

Equity and Fixed income 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.

Fixed income 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.

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 1 of the fair value hierarchy represents the pending variance margin on futures contracts which is calculated using quoted prices in active markets for identical securities. 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, 2024.

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)	\$ 1,192,224,559	Daily	0 days
Multi-Strategy Hedge Funds (b)	128,612,175	Monthly	5-30 days
Alternative Investments			
Real Estate Funds (c)	1,914,896,750	\$ 861,760,024	
Private Equity Funds (d)	<u>1,621,070,400</u>	474,455,509	
Investments, Measured at net asset value (NAV)	<u>\$ 4,856,803,884</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) 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.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(c) 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.

(d) Private Equity Funds. This type includes 31 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.

(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, 2024, 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 increase in fair value of investments." The net change in fair value from futures contracts for fiscal year ended June 30, 2024 was \$(328,924,807).

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

Futures contract positions at June 30, 2024 were as follows:

<u>Description</u>	<u>Expiration date</u>	<u>Open position</u>	<u>Number of contracts</u>	<u>Notional Contract size</u>	<u>Fair value</u>
S&P 500 Index	September 2024	Short	8,207	\$50 x S&P 500 index	(\$2,265,747,525)

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 increase in fair value of investments.” The net change in fair value from foreign currency forward contracts for fiscal year ended June 30, 2024 was \$(8,328,995). At June 30, 2024, the foreign currency forward contracts outstanding were as follows:

<u>Description</u>	<u>Notional amount</u>	<u>Currency</u>	<u>Value date</u>	<u>Fair value</u>
Forward buy	\$ 536,000,000	JPY	8/15/2024	\$ (130,890)
Forward buy	\$ 7,182,000,000	JPY	8/15/2024	\$ (1,753,831)

(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, 2024, 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 \$(1,884,721).

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(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, 2024, a liability existed for accumulated annual leave calculated at the employees' June 30, 2024 pay rate in the amount of \$269,875. 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, 2024, a liability existed for accumulated and accrued sick leave calculated at the employees' June 30, 2024 pay rate in the amount of \$265,543.

	2024	2023	Percentage Change
Total compensated absences	\$ 535,418	\$ 465,945	14.91%

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 \$722,288,928 net position restricted for plan benefits at June 30, 2024, \$422,963,799 was held in trust for employees of the State, while the remaining \$299,325,129 represents the assets held in trust for employees of other jurisdictions.

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 2024

(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 \$82,777,451 net position restricted for plan benefits at June 30, 2024, \$45,936,434 was held in trust for employees of the State, while the remaining \$36,841,017 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, 2024, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$474,455,509 and to real estate limited partnerships totaling approximately \$861,760,024. 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, 2024

(12) Litigation

In 2014 and 2015, SDRS held an interest in Fourth Cinven Fund Limited Partnership (the “LP”), an English Limited Partnership. In those years, the LP received material dividends from Avio S.p.A. (“Avio”), an Italian joint stock company; said dividends were promptly distributed by LP to its limited partners, including SDRS.

Upon distribution, Avio subjected the Avio Dividends to withholding tax at statutory rates (the “WHT”). In 2018, SDRS, in its capacity as limited partner of a tax transparent vehicle (LP), applied for the full refund of the WHT suffered on the pro rata portion of the Avio Dividends, claiming the application of withholding tax rates reduced to zero according to the Double Tax Treaty between the United States of America and Italy.

The Italian Tax Authorities never replied to the refund application (so called “silent denial”); accordingly, in compliance with Italian laws, SDRS started the litigation proceedings before the Tax Court of First Instance in order to obtain the declaration of the right to the requested refund.

In February 2023, the Tax Court of First Instance disallowed SDRS appeal. In September, SDRS notified an appeal to the Tax Authorities which is now pending before the Tax Court of Second Instance.

In June 2024, the Tax Court of the Second Instance confirmed the First Instance’s decision, denying the 2014 and 2015 refund requests.

The legal action does not represent an immediate negative contingency.



Required Supplementary Information
June 30, 2024

South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM

Schedule of Required Supplementary Information

June 30, 2024

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

Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 291,155,784	\$ 275,103,735	\$ 260,129,052	\$ 228,793,696	\$ 237,264,711	\$ 233,802,396	\$ 222,709,592	\$ 192,682,191	\$ 184,923,317	\$ 179,349,820
Interest	936,372,466	911,947,973	895,957,242	795,666,742	805,447,155	791,288,656	752,702,794	781,413,919	745,774,586	712,632,857
Changes in benefit terms	-	-	-	-	2,246,202	-	-	(567,079,980)	-	-
Differences between expected and actual experience	260,469,110	199,176,582	209,192,709	30,918,486	6,447,338	(6,190,846)	5,220,615	97,593,700	78,645,840	55,821,847
Changes of assumptions	(296,160,706)	(277,074,634)	(418,989,267)	1,134,566,674	(594,816,177)	(193,660,111)	181,931,669	820,191,401	-	-
Department of Labor and Regulation Plan Merger	-	-	-	44,637,384	-	-	-	-	-	-
Benefit payments, including refunds	(764,267,798)	(735,080,247)	(696,040,676)	(661,208,044)	(625,796,378)	(596,424,723)	(564,141,147)	(541,090,032)	(510,496,482)	(482,494,871)
Net change in total pension liability	427,568,856	374,073,409	250,249,060	1,573,374,938	(169,207,149)	228,815,372	598,423,523	783,711,199	498,847,261	465,309,653
Total pension liability - beginning	14,490,692,654	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
Total pension liability - ending	14,918,261,510	14,490,692,654	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
Plan fiduciary net position										
Contributions - employer	168,329,948	154,761,704	143,270,826	136,159,432	131,681,949	127,572,348	124,734,270	121,907,646	114,090,075	109,549,977
Contributions - member	167,162,702	153,798,895	143,041,545	136,159,404	131,541,783	127,454,956	124,262,387	122,144,961	114,443,295	110,152,580
Net investment income	856,068,350	806,061,088	(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
Benefit payments, including refunds	(764,267,798)	(735,080,247)	(696,040,676)	(661,208,044)	(625,796,378)	(596,424,723)	(564,141,147)	(541,090,032)	(510,496,482)	(482,494,871)
Administrative expense	(5,436,819)	(5,158,204)	(4,862,000)	(4,905,128)	(5,127,029)	(5,095,897)	(4,870,334)	(4,363,512)	(3,944,641)	(3,911,222)
Department of Labor and Regulation Plan Merger	-	-	-	56,628,426	-	-	-	-	-	-
Net change in plan fiduciary net position	421,856,383	374,383,236	(506,129,171)	2,334,860,812	(175,461,430)	237,080,402	591,680,651	1,130,576,477	(263,071,488)	168,979,123
Plan fiduciary net position - beginning	14,500,453,104	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
Plan fiduciary net position - ending	\$14,922,309,487	\$14,500,453,104	\$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
System's net pension liability(asset) - ending	\$ (4,047,977)	\$ (9,760,450)	\$ (9,450,623)	\$ (765,828,854)	\$ (4,342,980)	\$ (10,597,261)	\$ (2,332,231)	\$ (9,075,103)	\$ 337,790,175	\$ (424,128,574)

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM

Schedule of Required Supplementary Information

June 30, 2024

SCHEDULE OF SYSTEM'S NET PENSION LIABILITY (ASSET)
Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
SCHEDULE OF SYSTEM'S NET PENSION LIABILITY (ASSET)										
Total pension liability	\$ 14,918,261,510	\$ 14,490,692,654	\$ 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
Plan fiduciary net position	14,922,309,487	14,500,453,104	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
System's net pension liability (asset)	<u>\$ (4,047,977)</u>	<u>\$ (9,760,450)</u>	<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>
Plan fiduciary net position as a percentage of the										
Total pension liability	100.03%	100.07%	100.07%	105.52%	100.04%	100.09%	100.02%	100.08%	96.89%	104.10%
Covered payroll	\$ 2,698,373,036	\$ 2,482,638,144	\$ 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
System's net pension liability (asset) as a percentage of covered payroll	-0.15%	-0.393%	-0.411%	-35.030%	-0.205%	-0.517%	-0.117%	-0.464%	18.462%	-24.121%

SCHEDULE OF SYSTEM'S CONTRIBUTIONS
Last Fiscal Year

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 168,329,948	\$ 154,761,704	\$ 143,270,826	\$ 136,159,432	\$ 131,681,949	\$ 127,572,348	\$ 124,734,270	\$ 121,907,646	\$ 114,090,075	\$ 109,549,977
Contributions in relation to the actuarially determined contribution	168,329,948	154,761,704	143,270,826	136,159,432	131,681,949	127,572,348	124,734,270	121,907,646	114,090,075	109,549,977
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reported covered payroll	\$ 2,698,373,036	\$ 2,482,638,144	\$ 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
Contributions as a percentage of covered payroll	6.24%	6.23%	6.23%	6.23%	6.22%	6.23%	6.23%	6.24%	6.24%	6.23%

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM

Schedule of Required Supplementary Information

June 30, 2024

SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate or return, net of investment expenses	5.98%	5.80%	-0.64%	22.01%	1.56%	4.84%	7.95%	13.84%	0.21%	4.17%
Annual time-weighted rate or return, net of investment expenses	6.02%	5.84%	-0.69%	22.03%	1.59%	4.88%	7.94%	13.81%	0.30%	4.18%

See Notes to Required Supplementary Information

SOUTH DAKOTA RETIREMENT SYSTEM

Notes to Schedules of Required Supplementary Information

June 30, 2024

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, one year 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, 2024, 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 investment expenses. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLA's	1.71%

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

Active and Terminated Vested Members:

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

Retired Members:

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:

PubG-2010 contingent survivor mortality table

Disabled Members:

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

The actuarial assumptions used in the June 30, 2024 Actuarial Valuation were adopted by the SDRS Board of Trustees based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2021.



Other Supplementary Information
June 30, 2024

South Dakota Retirement System

SOUTH DAKOTA RETIREMENT SYSTEM

Other Supplementary Information

Year Ended June 30, 2024

Schedule of Administrative Expenses

Personal services:	
Salary and per diem	\$ 2,705,481
Employee benefits	<u>707,947</u>
Total personal services	<u>3,413,428</u>
Operating expenses:	
Travel	<u>78,409</u>
Contractual services:	
Audit	165,020
External actuarial	17,210
Consulting	24,208
Legal	6,998
Operations	<u>1,055,741</u>
Total contractual services	<u>1,269,177</u>
Supplies and materials	403,459
Capital assets	<u>272,346</u>
Total operating expenses	<u>2,023,391</u>
Total administrative expenses	<u><u>\$ 5,436,819</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM

Other Supplementary Information

Year Ended June 30, 2024

Schedule of Investment Activity Expenses

Investment Category	
Fixed income	\$ 14,807,768
Equity	474,997
Real Estate	25,787,946
Private Equity	<u>19,809,503</u>
Total investment activity expenses	<u>\$ 60,880,214</u>

Schedule of Payments to Consultants

Investment Management Fees	\$ 60,880,214
Actuarial	17,210
Audit	165,020
Legal	<u>6,998</u>
Total paid to consultants	<u>\$ 61,069,442</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 (*Government Auditing Standards*), the financial statements of the South Dakota Retirement System (SDRS), as of and for the year ended June 30, 2024, and the related notes to the financial statements which collectively comprise SDRS’s basic financial statements, and have issued our report thereon dated October 25, 2024.

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 25, 2024



Financial Statements
June 30, 2024

**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 the South Dakota Retirement System Supplemental Retirement Plan (SRP or the Plan), as of and for the year ended June 30, 2024, 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 fiduciary net position of the South Dakota Retirement System Supplemental Retirement Plan, as of June 30, 2024, and the respective 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 (*Government Auditing Standards*). 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 SRP 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SRP's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SRP's ability to continue as a going concern for a reasonable period of time.

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 25, 2024, 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.

Eide Bailly LLP

Boise, Idaho
October 25, 2024

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2024

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, 2024. This section is intended to supplement the SRP financial statements.

Financial Highlights

- * The net position available for plan benefits of the SRP increased by \$102 million during fiscal year 2024. This increase was primarily attributable to investment gains during the year and increased by contributions outweighing distributions to participants.
- * The SRP paid \$35.0 million to benefit recipients in fiscal year 2024 compared to \$28.0 million in 2023. The SRP received \$49.1 million in contributions in fiscal year 2024 compared to \$45.0 million in 2023.

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, 2024, 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, 2024

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

Summary of Fiduciary Net Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Investments, at fair value	\$ 719,716,333	\$ 617,591,615
Cash	1,136,943	1,091,384
Revenue sharing receivable	96,640	167,415
Accrued interest	4,241	1,166
Contributions receivable	<u>1,453,633</u>	<u>1,610,264</u>
Total assets	<u>722,407,790</u>	<u>620,461,844</u>
Liabilities		
Accounts payable	<u>118,862</u>	<u>97,416</u>
Net position held in trust for plan benefits	<u><u>\$ 722,288,928</u></u>	<u><u>\$ 620,364,428</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2024

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 2024, SRP paid \$35.0 million to benefit recipients, or 24.98 percent more than 2023.

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

Summary of Changes in Fiduciary Net Position

Years Ended June 30, 2024 and 2023

	2024	2023	Percentage Change
Additions			
Employee contributions	\$ 49,125,621	\$ 44,985,226	9.20%
Investment income (loss)	88,577,780	62,089,476	42.66%
Other loss	(70,775)	(56,392)	25.51%
Transfers from related plan	429,258	364,740	17.69%
Total additions	138,061,884	107,383,050	28.57%
Deductions			
Distributions to participants	35,016,607	28,016,822	24.98%
Administrative expenses	1,117,464	1,024,281	9.10%
Transfers to related plan	3,313	9,480	100.00%
Total deductions	36,137,384	29,050,583	24.39%
Net change in net position	101,924,500	78,332,467	30.12%
Plan net position held in trust for plan benefits:			
Beginning of year	620,364,428	542,031,961	14.45%
End of year	\$ 722,288,928	\$ 620,364,428	16.43%

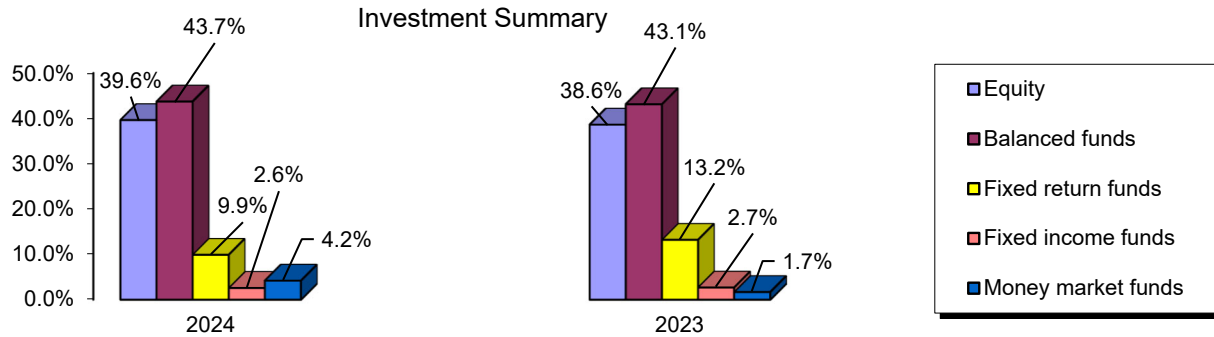
SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Management's Discussion and Analysis

June 30, 2024

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. You may link to the SRP Web site from the SDRS Web site at www.state.sd.us/sdrs/.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Statement of Fiduciary Net Position

June 30, 2024

Assets	
Cash	\$ 1,136,943
Investments, at fair value:	
Equity funds	285,237,990
Balanced funds	314,710,543
Fixed return funds	70,922,851
Fixed income funds	18,724,701
Money market funds	30,120,248
	<hr/>
Total investments, at fair value	719,716,333
	<hr/>
Revenue sharing receivable	96,640
Accrued interest	4,241
Contributions receivable	1,453,633
	<hr/>
Total assets	722,407,790
	<hr/>
Liabilities	
Accounts payable	118,862
	<hr/>
Net position held in trust for plan benefits	\$ 722,288,928
	<hr/> <hr/>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2024

Additions	
Employee contributions	\$ 49,125,621
Investment income	88,577,780
Revenue sharing (loss)	(70,775)
Transfers from related plan	<u>429,258</u>
Total additions	<u>138,061,884</u>
Deductions	
Distributions to participants	35,016,607
Administrative expenses	1,117,464
Transfers to related plan	<u>3,313</u>
Total deductions	<u>36,137,384</u>
Net change in plan net position	101,924,500
Net position held in trust for plan benefits	
Beginning of year	<u>620,364,428</u>
End of year	<u>\$ 722,288,928</u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2024

(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 36,708 participants and 378 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 \$23,000 for calendar year 2024 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 \$7,500.

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 (\$46,000 in 2024) 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, 2024

(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.

(c) *Subsequent Events*

SDRS has evaluated subsequent events through October 25, 2024, the date which the financial statements were able to be issued and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

(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.

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2024

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.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 630,068,781	\$ 630,068,781	\$ -	\$ -
Fixed income and return funds	89,647,552	18,724,701	-	70,922,851
Investments at fair value	\$ 719,716,333	\$ 648,793,482	\$ -	\$ 70,922,851

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, 2024

Changes in fiduciary net position for the year ended June 30, 2024 by investment alternatives available to participants were as follows:

	Beginning balance	Contributions	Internal Transfers In/Out	Investment Income	Transfers In/Out	Additions/ Deductions	Ending balance	Fair value as a percentage of plan assets
Money Market								
Vanguard Federal Money Market	\$ 16,452,852	\$ 3,290,303	\$ 84,393	\$ 1,190,282	\$ 129,414	\$ 8,973,004	\$ 30,120,248	4.17%
Fixed Return:								
Prudential	81,356,463	2,915,847	(83,460)	2,234,191	278,791	(15,778,981)	70,922,851	9.82%
Fixed Income								
Vanguard Bond Market	14,987,098	848,563	(1,619)	523,898	-	2,366,761	18,724,701	2.59%
Balanced								
* Vanguard Trgt Rtrmt 2020 Inv	33,342,294	1,566,506	(62,654)	2,965,315	-	(3,932,031)	33,879,430	4.69%
* Vanguard Trgt Rtrmt 2025 Inv	45,567,828	3,147,161	62,653	4,934,442	-	(4,219,989)	49,492,095	6.85%
* Vanguard Trgt Rtrmt 2030 Inv	43,177,565	6,040,746	2,651	5,527,994	-	(3,805,464)	50,943,492	7.05%
* Vanguard Trgt Rtrmt 2035 Inv	28,341,203	4,728,783	(6,636)	4,177,198	1,210	(935,670)	36,306,088	5.03%
* Vanguard Trgt Rtrmt 2040 Inv	23,297,116	3,952,947	3,633	3,790,467	725	(902,290)	30,142,598	4.17%
* Vanguard Trgt Rtrmt 2045 Inv	24,722,870	3,739,072	7,062	4,166,578	-	(1,553,159)	31,082,423	4.30%
* Vanguard Trgt Rtrmt 2050 Inv	23,530,357	3,603,194	2,685	4,238,906	-	(714,371)	30,660,771	4.24%
* Vanguard Trgt Rtrmt 2055 Inv	13,896,251	2,512,969	(5,988)	2,532,462	-	(543,942)	18,391,752	2.55%
* Vanguard Trgt Rtrmt 2060 Inv	5,064,598	1,444,151	(4,339)	971,984	-	(104,550)	7,371,844	1.02%
* Vanguard Trgt Rtrmt 2065 Inv	593,735	371,296	-	151,616	-	121,314	1,237,961	0.17%
* Vanguard Trgt Rtrmt Inc	24,747,834	354,028	-	1,888,759	-	(1,788,532)	25,202,089	3.49%
Total Balanced	266,281,651	31,460,853	(933)	35,345,721	1,935	(18,378,684)	314,710,543	43.57%
	Beginning balance	Contributions	Internal Transfers In/Out	Investment Income	Transfers In/Out	Additions/ Deductions	Ending balance	Fair value as a percentage of plan assets
Equity								
* Vanguard Growth Indx Inst	\$ 12,749,731	\$ 1,248,317	\$ (358)	\$ 4,544,804	\$ 1,451	\$ 678,152	\$ 19,222,097	2.66%
* Vanguard Value Indx Adml	3,617,475	382,953	(409)	576,805	-	225,241	4,802,065	0.66%
* Windsor II Admiral	40,264,991	862,878	(33,113)	7,877,124	-	(2,600,415)	46,371,465	6.42%
* Vanguard Instit Index	81,465,569	2,632,465	38,743	19,491,582	1,451	(6,230,531)	97,399,279	13.48%
* Vanguard Tot Intl Stock Ind	11,869,230	760,117	35,613	1,353,500	-	(323,465)	13,694,995	1.90%
* TRowePr Real Asst	52,175	10,706	-	3,983	-	(9,306)	57,558	0.01%
* Vanguard RealEst Indx Adml	643,463	89,122	-	35,003	-	(11,307)	756,281	0.10%
* Dodge & Cox Int Stock Fnd	2,777,153	190,122	391	362,718	-	(436,247)	2,894,137	0.40%
* Dodge Cox Global Stock	3,720,974	265,820	(756)	346,615	-	(115,780)	4,216,873	0.58%
* Growth Fund of America	22,971,530	1,458,888	(658)	7,206,030	-	(510,031)	31,125,759	4.31%
* Capital World Grth & Inc	8,511,296	457,059	(13,253)	1,525,500	-	(587,004)	9,893,598	1.37%
* Vanguard Small Cap Indx Inst	8,371,702	732,656	(276)	985,277	-	(146,164)	9,943,195	1.38%
* Vanguard Ext Mkt Idx Inst	18,937,264	754,922	(24,000)	2,720,101	-	(1,441,804)	20,946,483	2.90%
* Vanguard Wslly Inc Adml	13,590,023	383,834	1	876,880	6,353	(1,482,407)	13,374,684	1.85%
* Vanguard Strategic Equity	8,970,975	567,808	(306)	1,373,525	6,550	(379,031)	10,539,521	1.46%
Total Equity	238,513,551	10,797,667	1,619	49,279,447	15,805	(13,370,099)	285,237,990	39.49%
Total Investments	617,591,615	49,313,233	-	88,573,539	425,945	(36,187,999)	719,716,333	99.64%
Other Assets and Liabilities	2,772,813	(187,612)	-	(66,534)	-	53,928	2,572,595	0.36%
Total Fiduciary Net Position	\$ 620,364,428	\$ 49,125,621	\$ -	\$ 88,507,005	\$ 425,945	\$ (36,134,071)	\$ 722,288,928	100.00%

Investments in bold represent investments exceeding 5 percent or more of net position as of June 30, 2024. Investments with an asterisk () represent investments with international mutual funds.*

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2024

(4) Risks and Uncertainties

The Plan invests in various investment securities. Investments securities are exposed to various risks, such as interest rate, market, and credit risks. Market risks include global events which could impact the value of investments securities, such as pandemic or global conflict. 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.

As of June 30, 2024, 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	\$ 4,746,951	Unrated	
Fixed Income			
Vanguard Total Bond Market Index	18,533,709	AA	8.50
Balanced			
Vanguard Trgt Rtrmt 2020 Inv	19,839,794	A	7.36
Vanguard Trgt Rtrmt 2025 Inv	22,464,462	A	7.81
Vanguard Trgt Rtrmt 2030 Inv	18,472,110	A	8.59
Vanguard Trgt Rtrmt 2035 Inv	10,517,874	A	8.59
Vanguard Trgt Rtrmt 2040 Inv	6,592,186	A	8.59
Vanguard Trgt Rtrmt 2045 Inv	4,631,281	A	8.59
Vanguard Trgt Rtrmt 2050 Inv	2,839,187	A	8.59
Vanguard Trgt Rtrmt 2055 Inv	1,719,629	A	8.59
Vanguard Trgt Rtrmt 2060 Inv	686,319	A	8.59
Vanguard Trgt Rtrmt 2065 Inv	114,264	A	8.60
Vanguard Trgt Rtrmt Inc	16,817,354	A	7.15
Equity			
TRowePr Real Asst	374	Unrated	
Capital World Grth & Inc	9,894	Unrated	
Vanguard Wlsly Inc Adml	8,264,217	A	10.40
	<u>\$ 136,249,605</u>		

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2024

(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, 2024, 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 Morningstar.

	Fair Value
A	\$ 112,958,677
AA	18,533,709
Unrated	4,757,219
Total	<u>136,249,605</u>
Fixed Income presented in balanced and equity funds	<u>117,524,904</u>
Fixed Income per Statement of Fiduciary Net Position	<u>\$ 18,724,701</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.

(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 \$109,945,736 as of June 30, 2024. International mutual funds are marked with asterisk on page 53.

(5) 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.

(6) Federal Income Tax Status

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

SOUTH DAKOTA RETIREMENT SYSTEM SUPPLEMENTAL RETIREMENT PLAN

Notes to Financial Statements

June 30, 2024

(7) 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 (*Government Auditing Standards*), the financial statements of the South Dakota Retirement System Supplemental Retirement Plan (SRP), as of and for the year ended June 30, 2024, and the related notes to the financial statements which collectively comprise SRP’s basic financial statements, and have issued our report thereon dated October 25, 2024.

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

Boise, Idaho
October 25, 2024



Financial Statements
June 30, 2024

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 Special Pay Plan (SPP or the Plan), as of and for the year ended June 30, 2024, 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 fiduciary net position of the South Dakota Retirement System Special Pay Plan, as of June 30, 2024, and the respective 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 (*Government Auditing Standards*). 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 SPP 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SPP's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SPP's ability to continue as a going concern for a reasonable period of time.

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 25, 2024, 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 SPP'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 cursive script that reads "Eide Bailly LLP".

Boise, Idaho
October 25, 2024

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2024

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, 2024. 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 \$1.6 million during fiscal year 2024. This increase was primarily attributable to additional participant contributions and investment gains.
- The SPP paid \$11.2 million to benefit recipients in fiscal year 2024 compared to \$8.8 million in 2023. The SPP received \$9.6 million in contributions in fiscal year 2024 compared to \$9.2 million in 2023.

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, 2024, 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, 2024

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

Summary of Fiduciary Net Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Investments, at fair value	\$ 81,448,246	\$ 79,115,413
Cash	1,219,004	1,395,302
Revenue sharing receivable	69,362	64,642
Accrued interest	2,311	656
Contributions receivable	<u>50,600</u>	<u>564,281</u>
Total assets	82,789,523	81,140,294
Liabilities		
Accounts payable	<u>12,072</u>	<u>8,595</u>
Net position held in trust for plan benefits	<u><u>\$ 82,777,451</u></u>	<u><u>\$ 81,131,699</u></u>

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management's Discussion and Analysis

June 30, 2024

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 2024, SPP paid \$11.2 million to benefit recipients, or 26.3 percent more than 2023.

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

Summary of Changes in Fiduciary Net Position

Years Ended June 30, 2024 and 2023

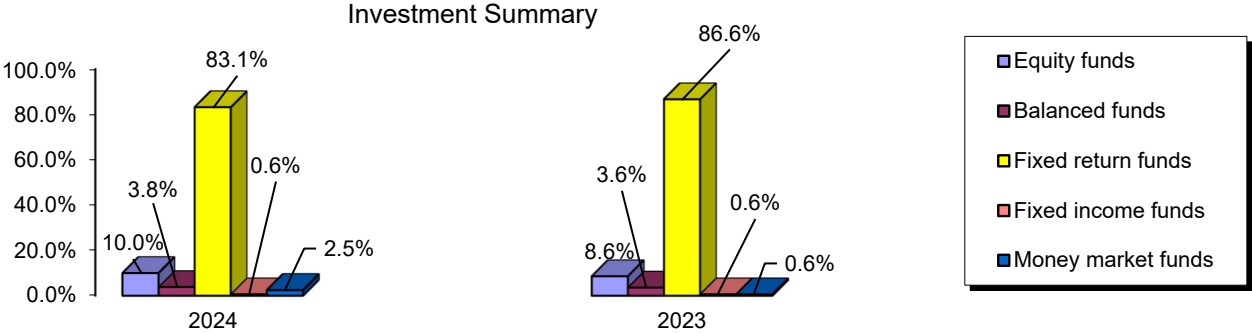
	2024	2023	Percentage Change
Additions			
Employee contributions	\$ 9,577,084	\$ 9,181,864	4.30%
Investment income	3,802,524	3,211,386	18.41%
Revenue sharing	4,719	3,497	100.00%
Other income	31,320	30,780	1.75%
Transfers from related plan	3,313	9,480	-65.05%
Total additions	<u>13,418,960</u>	<u>12,437,007</u>	7.90%
Deductions			
Distributions to participants	11,190,653	8,859,408	26.31%
Administrative expenses	153,297	145,777	5.16%
Total deductions	<u>11,773,208</u>	<u>9,369,925</u>	25.65%
Net change in plan net position	<u>1,645,752</u>	<u>3,067,082</u>	-46.34%
Net position held in trust for plan benefits:			
Beginning of year	<u>81,131,699</u>	<u>78,064,617</u>	3.93%
End of year	<u><u>\$ 82,777,451</u></u>	<u><u>\$ 81,131,699</u></u>	2.03%

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Management’s Discussion and Analysis

June 30, 2024

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, 2024

Assets

Investments, at fair value:

Equity funds	\$ 8,114,460
Balanced funds	3,071,958
Fixed return funds	67,677,155
Fixed income funds	534,409
Money market funds	<u>2,050,264</u>

Total investments, at fair value 81,448,246

Cash 1,219,004

Revenue sharing receivable 69,362

Accrued interest 2,311

Contributions receivable 50,600

Total assets 82,789,523

Liabilities

Accounts payable 12,072

Net position held in trust for plan benefits \$ 82,777,451

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2024

Additions	
Contributions	\$ 9,577,084
Investment income	3,802,524
Revenue sharing	4,719
Other income	31,320
Transfers from related plan	<u>3,313</u>
Total additions	<u>13,418,960</u>
Deductions	
Distributions to participants	11,190,653
Administrative expenses	153,297
Transfers to related plan	<u>429,258</u>
Total deductions	<u>11,773,208</u>
Net change in plan net position	1,645,752
Net position held in trust for plan benefits:	
Beginning of year	<u>81,131,699</u>
End of year	<u><u>\$ 82,777,451</u></u>

See accompanying notes to financial statements.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2024

(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 4,750 participants and 143 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 \$69,000 for calendar year 2024.

(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, 2024

(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.

(c) *Subsequent Events*

SDRS has evaluated subsequent events through October 25, 2024, the date which the financial statements were able to be issued and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

(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, 2024

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.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 13,236,682	\$ 13,236,682	\$ -	\$ -
Fixed income funds	68,211,564	534,409	-	67,677,155
Investments at fair value	<u>\$ 81,448,246</u>	<u>\$ 13,771,091</u>	<u>\$ -</u>	<u>\$ 67,677,155</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, 2024

Changes in fiduciary net position for the year ended June 30, 2024 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	\$ 487,849	\$ 135,778	\$ 61,661	\$ (119,192)	\$ 1,484,168	\$ 2,050,264	2.48%
Fixed Return:							
Prudential	68,522,230	10,124,457	2,032,629	(293,850)	(12,708,311)	67,677,155	81.76%
Fixed Income							
Vanguard Bond Market	503,160	-	14,441	-	16,808	534,409	0.65%
Balanced							
Vngrd Trgt Rtrmt 2020 Inv	460,976	-	41,949	-	(19,677)	483,248	0.58%
Vngrd Trgt Rtrmt 2025 Inv	830,697	-	61,928	-	(218,761)	673,864	0.81%
Vngrd Trgt Rtrmt 2030 Inv	394,693	-	50,087	-	60,944	505,724	0.61%
Vngrd Trgt Rtrmt 2035 Inv	136,170	-	23,532	-	37,914	197,616	0.24%
Vngrd Trgt Rtrmt 2040 Inv	82,188	-	24,667	-	93,573	200,428	0.24%
Vngrd Trgt Rtrmt 2045 Inv	68,861	-	10,878	-	(99)	79,640	0.10%
Vngrd Trgt Rtrmt 2050 Inv	46,530	-	7,586	-	(1,131)	52,985	0.06%
Vngrd Trgt Rtrmt 2055 Inv	43,931	-	8,145	-	34,261	86,337	0.10%
Vngrd Trgt Rtrmt 2060 Inv	13,400	-	2,222	-	(22)	15,600	0.02%
Vngrd Trgt Rtrmt 2065 Inv	12,676	-	2,521	-	6,212	21,409	0.03%
Vngrd Trgt Rtrmt Inc	726,048	-	56,104	-	(27,045)	755,107	0.91%
Total Balanced	2,816,170	-	289,619	-	(33,831)	3,071,958	3.71%
Equity							
Dodge and Cox Int Stock Fd	157,253	-	6,368	-	(110,771)	52,850	0.06%
DodgeCox Global Stock	154,529	-	21,320	-	(7,373)	168,476	0.20%
Vanguard RealEst Indx Adml	10,071	-	712	-	2,264	13,047	0.02%
Am Funds Capital World Grth &	132,229	-	23,069	-	(6,475)	148,823	0.18%
Vanguard Ext Mkt Ind Inst	795,464	-	113,758	-	(105,752)	803,470	0.97%
Growth Fund of America	788,321	10,394	213,172	-	120,344	1,132,231	1.37%
Windsor II Admiral	589,059	-	124,867	-	(46,603)	667,323	0.81%
Vanguard SmCap Indx Inst	295,495	-	32,128	-	(47,535)	280,088	0.34%
Vanguard Instit Index	1,780,544	-	439,211	-	7,912	2,227,667	2.69%
Vanguard Tot Intl Stock Ind	198,209	-	22,489	-	4,771	225,469	0.27%
Vanguard Wlsly Inc Adml	574,998	-	39,728	(6,353)	(33,157)	575,216	0.69%
Vanguard Gr Indx Inst	746,741	566	276,309	-	139,687	1,163,303	1.41%
Vanguard Val Indx Adml	162,510	-	27,319	-	8,586	198,415	0.24%
Vanguard Strategic Equity	400,581	-	61,413	(6,550)	2,638	458,082	0.55%
Total Equity	6,786,004	10,960	1,401,863	(12,903)	(71,464)	8,114,460	9.80%
Total Investments	79,115,413	10,271,195	3,800,213	(425,945)	(11,312,630)	81,448,246	98.39%
Other Assets and Liabilities	2,016,286	(694,111)	7,030	-	-	1,329,205	1.61%
Total Fiduciary Net Position	\$ 81,131,699	\$ 9,577,084	\$ 3,807,243	\$ (425,945)	\$ (11,312,630)	\$ 82,777,451	100.00%

Investments in bold represent investments exceeding 5 percent or more of net position as of June 30, 2024.

SOUTH DAKOTA RETIREMENT SYSTEM SPECIAL PAY PLAN

Notes to Financial Statements

June 30, 2024

(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 (*Government Auditing Standards*), the financial statements of the South Dakota Retirement System Special Pay Plan (SPP), as of and for the year ended June 30, 2024, and the related notes to the financial statements which collectively comprise SPP’s basic financial statements, and have issued our report thereon dated October 25, 2024.

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 25, 2024