



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2002

Prepared by the SDRS Finance and Audit Departments

South Dakota Retirement System
222 East Capitol, Suite 8, P.O. Box 1098
Pierre, South Dakota 57501-1098

The South Dakota Retirement System fully subscribes to the provisions of the Americans with Disabilities Act of 1990.

The South Dakota Retirement System Comprehensive Annual Financial Report is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Fifteen hundred copies of this document were printed by SDRS at a cost of \$2.67 per document.

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* The notes to the Financial Statements are an integral part of the Basic Financial Statements.

CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Dakota Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Imelda Arave
President

Jeffrey L. Essler
Executive Director

INTRODUCTION



**Chair's Letter
Letter of Transmittal
Board of Trustees
Organizational Chart**

CHAIR'S LETTER

To Our Members:

There is no issue of greater importance to the members of SDRS than the financial condition of their retirement system, especially given the difficult investment climate of the past several years.

The SDRS Reserve

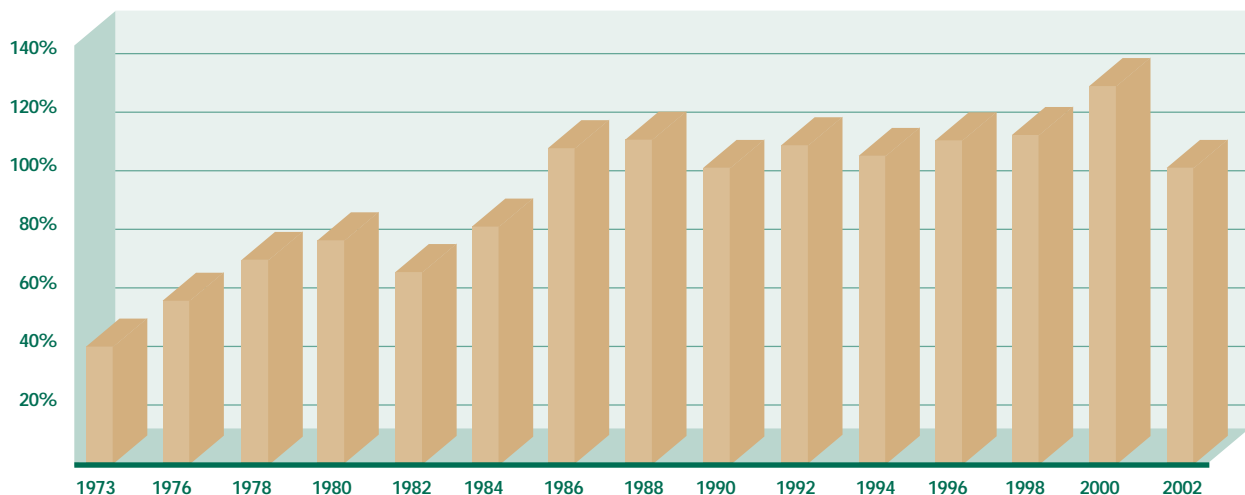
Fortunately, SDRS has been anticipating a reverse in the markets for some time. In 1995, the board created a reserve within the SDRS Trust Fund specifically designed to:

- Prefund benefit improvements, when appropriate, and
- Protect the system, when necessary

The major losses on Wall Street during the last two and one-half years have tested the financial strength and resiliency of retirement systems across the nation. On June 30, 2000, the S&P 500 was at near-record highs of 1454.6, but by June 30, 2002 had dropped to 989.82. That 30 percent loss was reflected in the earnings of virtually every public, corporate and individual retirement plan, and SDRS was no exception. The South Dakota Investment office, the agency responsible for managing SDRS' investments, although performing much better than average, lost 8 percent of the trust fund during the period.

I am pleased to report, however, that the reserve has performed exactly as planned. It has prefunded significant benefit improvements that have moved SDRS closer to its long term goals as well as absorbed losses of approximately \$400 million. Today SDRS benefits to members are significantly better than they were in 1995, and the system is still 101 percent funded. As the chart below illustrates, that 101 percent funding level actually exceeds the ratios posted in some prior years.

**SDRS Funded Ratios
(based on market
value of assets)**





SDRS Funded Status Comparison

SDRS also ranks exceptionally well when compared to the financial health of other state retirement systems. We estimate that in contrast to SDRS' 101 percent ratio, the average plan had a funded ratio of only 76 percent as of June 30, 2002. SDRS' ratio is also the highest among a sampling of state plans in our region, others of which ranged from a low of 60 percent to a high of 94 percent, and averaged 77 percent.

While we are pleased with our success, we are not complacent. The capital markets are far from bullish and the potential for continued investment losses is real. As a consequence, we will remain vigilant, do our homework and focus on the long term.

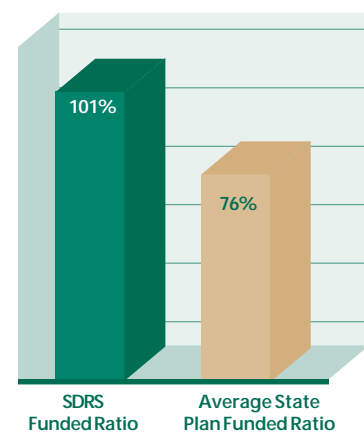
The Future

Although SDRS will be significantly affected by the performance of the financial markets, the system will continue its work of refining the plan's overall design, adapting it to the changing needs of our members, managing liabilities and maintaining the efficiency of our administrative structure. SDRS has been remarkably successful in these areas in the past and I am confident that we will remain one of the outstanding retirement systems in the nation.

Sincerely,

Elmer P. Brinkman
Chair

SDRS Funded Ratio Far Superior to National Average



LETTER OF TRANSMITTAL

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P.O. Box 1098
Pierre, South Dakota 57501-1098
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South Dakota Retirement System

January 24, 2003

Board of Trustees
South Dakota Retirement System
Pierre SD 57501

To the Members of the SDRS Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report of the South Dakota Retirement System (SDRS) for the fiscal year ended June 30, 2002. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SDRS. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of SDRS' operations.

This report is divided into five major sections:

Introduction

The Introduction contains the Chair's Letter, the Letter of Transmittal, the Board of Trustees, and the SDRS organizational chart and staff information.

Financial Summary

The Financial Summary contains the report of the independent auditors, KPMG, LLP, Management's Discussion and Analysis, the audited financial statements of the System, required supplemental information and supplemental financial schedules.

Actuarial Summary

The Actuarial Summary contains the report of the independent actuary, Buck Consultants, Inc., the results of the annual actuarial valuation, the actuarial assumptions and supporting schedules.

Investment Summary

The Investment Summary contains the investment objectives and policy along with investment profiles, exhibits and performance information.

Statistical Summary

The Statistical Summary includes other significant data pertaining to SDRS and the system's participating units.

Plan History

SDRS was established July 1, 1974, as a multi-employer public employee retirement system. As of June 30, 2002, it provided retirement, disability and survivor benefits to over 62,000 members. Basic to SDRS' history is the growth in the system's benefit provisions.

Revenues

Employee and employer contributions and investment income fund the benefits and pay for the expenses of the system. Revenues from all sources were (\$124.0) million for the fiscal year ending June 30, 2002, compared to (\$36.8) million in 2001. The decrease was due to a 60.7 percent decline in dollars generated by investment returns.

	2001 (Millions)	2002 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
SDRS Revenues				
Contributions:				
Employees ¹	\$ 62.3	\$ 66.3	\$ 4.0	6.4%
Employers	55.7	58.5	2.8	5.1%
Investments	(154.8)	(248.8)	(94.0)	(60.7)%
Total Revenues	(\$36.8)	(\$124.0)	(\$87.2)	(236.9)%

¹ Employees and employers contribute an equal percentage of salary to SDRS to pay for standard benefits. In this chart, total employee contributions exceed employer contributions due to the additional employee contributions made to pay for an optional spouse benefit and to purchase service.

History Of Benefit Improvements

Benefit Category	Status In 1974	Benefit Improvements
Benefit Formula <ul style="list-style-type: none"> Class A Class A Alternate Class B Public Safety Class B Judicial 	<p>1.0%</p> <p>2.0%</p> <p>2.0%</p> <p>3.333% / 2.0%</p>	<p>1982 — 1.1%</p> <p>1986 — 1.2%</p> <p>1991 — 1.30%</p> <p>1994 — 1.30%/1.40% (for applicable years)</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>1999 — 2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 2.25% after 2002</p> <p>1994 — 2.0%/2.10% (for applicable years)</p> <p>1997 — 2.10% prior to 1997/2.0% thereafter</p> <p>1998 — 2.175% prior to 1998/2.0% thereafter</p> <p>1999 — 2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 2.325% prior to 2002/2.0% thereafter</p> <p>1994 — 3.333% / 3.433% (for applicable years)</p> <p>2.0%/2.10% (for applicable years)</p> <p>1997 — 3.433% prior to 1997/3.333% thereafter</p> <p>2.10% prior to 1997/2.0% thereafter</p> <p>1998 — 3.508% prior to 1998/3.333% thereafter</p> <p>2.175% prior to 1998/2.0% thereafter</p> <p>1999 — 3.583 prior to 2000/3.333% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 3.658% prior to 2002/3.333% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p>
Class A Retiree Benefit Formula	Variable	<p>Standard — Alternate</p> <p>1982 — 1.0% - 2.0%</p> <p>1987 — 1.05% - 2.0%</p> <p>1988 — 1.1% - 2.0%</p> <p>1989 — 1.25% - 2.0%</p> <p>1991 — 1.30% - 2.0%</p> <p>1994 — 1.30%/1.40% - 2.0%</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter - 2.0%</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter - 2.0%</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>2.25% after 2002</p>
Improvement Factor	2% Simple	<p>1978 — 2.0% Compound (Indexed)</p> <p>1982 — 3.0% Compound (Indexed)</p> <p>1988 — 3.0% Compound</p> <p>1993 — 3.1% Compound</p> <p>1998 — 3.1% Compound and prorated for partial years</p>
Early Retirement <ul style="list-style-type: none"> Class A 	Early Retirement: Age 55 with 6% per Year Reduction	<p>1978 — Reduction Decreased to 3% per Year</p> <p>1986 — Rule of 85 (Age 60)</p> <p>1989 — Removed "at work" Limitation</p> <p>1991 — Rule of 85 (Age 58)</p> <p>1993 — Rule of 85 (Age 55)</p>

LETTER OF TRANSMITTAL (CONTINUED)

History Of Benefit Improvements (continued)		
Benefit Category	Status In 1974	Benefit Improvements
Early Retirement (continued) <ul style="list-style-type: none"> Class B Public Safety 	Early Retirement: Age 45 with 6% per Year Reduction	1978 — Reduction Decreased to 3% per Year 1982 — Early Retirement Age for New Members: Age 50 1989 — Early Retirement: Age 45 for All Class B Public Safety Members 1991 — Age 50/25 Years of Service 1998 — Rule of 75 (Age 45)
<ul style="list-style-type: none"> Class B Judicial 	Early Retirement: Age 55 with 6% per Year Reduction	1978 — Reduction Decreased to 3% per Year 1990 — Rule of 80 (Age 55)
Resolution of Member Issues <ul style="list-style-type: none"> Uncredited Service Class B Public Safety 	Buy at Cost	1989 — Buy at 75% of Cost 1978 — Contribution Rate Increased to 8% 1982 — Normal Retirement Age for Current Members: Age 55 Normal Retirement Age for New Members: Age 60 Contribution Rate for Current Members: increasing 1/8 of 1% to 10% Contribution Rate for New Members: 8% 1989 — Normal Retirement: Age 55 for All Class B Public Safety Normal Contribution Rate: 8% for All Class B Public Safety
<ul style="list-style-type: none"> Class B Judicial 	Normal Retirement: Age 65 Contribution Rate: 6%	1978 — Contribution Rate Increased to 8% 1982 — Contribution Rate Increasing 1/8 of 1% to 10% 1989 — Contribution Rate Capped at 9%
<ul style="list-style-type: none"> Short-Service Employees <ul style="list-style-type: none"> —Deferred Benefits —Refunds 	Frozen	1986 — Indexed
	Employee Contributions Plus 5%	1986 — Interest Indexed to the T-Bill Rate; 5% Minimum, 10% Maximum Guaranteed Refund of All Employer/Employee Contributions after Retirement 1995 — Portable Retirement Option (PRO) Refund of All or a Percentage of Employer Contributions Based on Years of Service for PRO Members 1998 — PRO for all members
<ul style="list-style-type: none"> Spouse Benefit 	50% of Retirement Allowance	1999 — 60% of Retirement Allowance

Expenses

In FY 2002, benefit payments comprised 87.2 percent of SDRS' total expenses, while refunds accounted for an additional 11.6 percent. Total benefit payments increased because of the system's cost-of-living allowance and increase in the number of members receiving benefits.

	2001 (Millions)	2002 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
SDRS Expenses				
Benefits	\$153.2	\$166.3	\$13.1	8.5%
Refunds	24.2	22.1	(2.1)	(8.6)%
Administrative Expenses	<u>2.4</u>	<u>2.4</u>	<u>0.0</u>	<u>0.0%</u>
Total Expenses	\$179.8	\$190.8	\$11.0	6.1%

Investments

The SDRS Trust Fund is managed by the South Dakota Investment Council. The Council's management objectives are:

1. Achieve the actuarial required rate of return over the long term.
2. Achieve a return in excess of the actuarial rate of return over the long term.
3. Achieve favorable total fund performance relative to a capital market benchmark reflective of the Investment Council's normal asset allocation policy.
4. Achieve favorable specific asset category performance relative to the identified capital market benchmark.
5. Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds.

The total return on the SDRS Trust Fund was -4.9 percent for fiscal year (FY) 2002, exceeding the Investment Council benchmark return of -5.8 percent. The 10-year annualized return of 10.6 percent exceeds the benchmark return of 9.2 percent.

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2002 Actuarial Valuation, two measures were used to evaluate the actuarial soundness and funding progress of SDRS:

- Actuarial Accrued Liability Funded Ratio
- Funding Period

The most pertinent of these is the Actuarial Accrued Liability (AAL) Funded Ratio. This ratio is equal to the actuarial value of assets divided by the AAL. The AAL is the portion of the present value of benefits for all members assigned to prior periods. SDRS' AAL funded ratio as of June 30, 2002, was 96.7 percent.

Major Initiatives

During FY 2002, the South Dakota Retirement System:

continued its strategic planning process; reviewed long term goals; established future benefit goals; completed financial statements, an actuarial valuation, and a comprehensive audit; reviewed the actions of the 2002 legislature and SDRS' legislative package; analyzed benefit trends and practices for public retirement plans; heard disability/benefit appeals; and reviewed the performance of its Supplemental Retirement Plan (SRP).

LETTER OF TRANSMITTAL (CONTINUED)

Accounting System and Internal Control

This report has been prepared to conform with the reporting standards of the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Administrative expenditure authority is granted annually by the State Legislature.

The system's internal accounting controls, which are reviewed by external auditors on an annual basis, are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by SDRS at improving this level to assure the participants of a financially sound retirement system.

The Governmental Accounting Standards Board (GASB) issued Statements No. 34 and No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Statement No. 34 establishes a new financial reporting model, which has been implemented in the SDRS FY 2002 CAFR.

Professional Services

The Board of Trustees retains independent consultants to perform professional services that are essential to the system's effective and efficient operation. Actuarial services are provided by Buck Consultants, Denver, Colorado. The annual financial audit is conducted by the accounting firm of KPMG LLP with the participation of the South Dakota Department of Legislative Audit. SDRS investments are managed by the South Dakota Investment Council. Communication services are provided by Koupal Communications, Pierre, South Dakota, and Buck Consultants, Denver, Colorado.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Dakota Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the sixth year that SDRS has received a Certificate of Achievement. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments and Comments

The preparation of this report reflects the combined efforts of the SDRS staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information to members of SDRS, the South Dakota State Legislature and the citizens of South Dakota.

We would like to thank the many people who have worked so diligently to assure the successful operation and financial soundness of the South Dakota Retirement System.

Respectfully submitted,



Al A. Asher
Administrator



Robert A. Wylie
Finance Officer

BOARD OF TRUSTEES

**Elmer
Brinkman**
Chair

Represents County Commissioners
Board Service Began in June 1991
Commissioner Codington County
Watertown

Represents Board of Regents Employees
Board Service Began in July 1985
Professor Emeritus of Animal Science
South Dakota State University
Aurora

**Lowell
Slyter**
Vice Chair

**Brian
Berglin**

Represents Teachers
Board Service Began in July 1997
Public School Teacher
Sioux Falls Public Schools
Sioux Falls

Represents State Employees
Board Service Began in July 1985
Supervisor — Trade & Industrial Education
South Dakota Division of Vocational Education
Pierre

**David
Merrill**

**Carol
Burch**

Represents Teachers
Board Service Began in July 1994
Public School Teacher
Belle Fourche Public Schools
Belle Fourche

Represents South Dakota Investment Council
Board Service Began in July 1974
State Investment Officer
Non-Voting Ex-officio Board Member
Sioux Falls

**Stephen
Myers**

**Tracy
Dahl-Webb**

Represents Municipal Employees
Board Service Began in July 1995
Human Resources Officer
City of Brookings
Brookings

Governor's Appointee
Board Service Began in March 1992
Chief of Operations
Governor's Office
Pierre

**Pamela
Roberts**

**Bryan
Gortmaker**

Represents Public Safety Members
Board Service Began in July 2002
Training Administrator
Department of Criminal Investigation
Pierre

Represents School Boards
Board Service Began in July 2001
Member
Brookings School Board
Brookings

**Wes
Tschetter**

**James O.
Hansen**

Represents Retirees
Board Service Began in July 1993
Retired Administrator
Pierre

Represents State Employees
Board Service Began in July 2000
Agency Integration Specialist
Bureau of Information Technology
Pierre

**Donald J.
Zeller**

**Royce
Hueners**

Represents Elected Municipal Officials
Board Service Began in July 2001
Mayor
City of Madison
Madison

Governor's Appointee
Board Service Began in May 1995
Commissioner
South Dakota Bureau of Personnel
Pierre

**Sandra
Zinter**

**Louise
Loban**

Represents Classified Employees
Board Service Began in July 1990
Benefit Specialist
South Dakota State University
Brookings

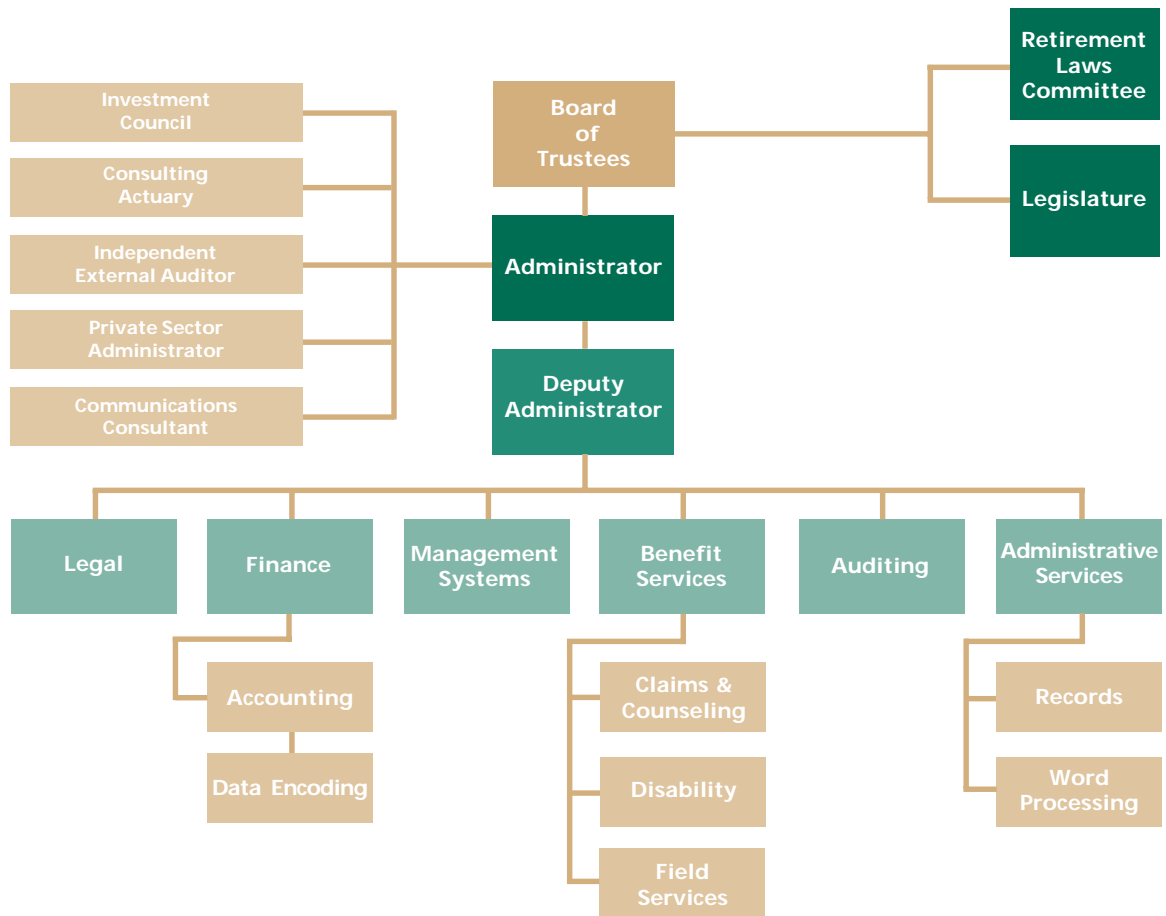
Represents Judicial Members
Board Service Began in June 1995
Justice
South Dakota Supreme Court
Pierre

**Justice
Steven
Zinter**

**Kathy "K.J."
McDonald**

Represents County Employees
Board Service Began in July 1997
Chief Deputy Auditor
Pennington County
Rapid City

ORGANIZATIONAL CHART



Administration

ADMINISTRATOR	Al A. Asher
DEPUTY ADMINISTRATOR	John A. Storsteen
EXECUTIVE ASSISTANT	Carmel A. Nelson

Management Group

ATTORNEY	Wade A. Hubbard
FINANCE OFFICER	Robert A. Wylie
RETIREMENT BENEFITS MANAGER	Corinne M. Koch
INTERNAL AUDIT/ COMPLIANCE MANAGER	Jane Roberts
ADMIN. SERVICES SUPERVISOR	Lisa A. Vander Maten

Advisors, Auditors and Administrators

CONSULTING ACTUARY	Buck Consultants, Inc. Denver, CO
EXTERNAL AUDITOR	KPMC LLP Omaha, NE
COMMUNICATIONS CONSULTANTS	Koupal Communications Pierre, SD Buck Consultants, Inc. Denver, CO
PRIVATE SECTOR ADMINISTRATOR	National Deferred Compensation, Inc. Columbus, OH
COMPUTER SUPPORT	Michael G. Weiss (BIT) Pierre, SD S. Lee Huset (BEI) Pierre, SD

FINANCIAL SUMMARY



- Auditor's Opinion**
- Management's Discussion and Analysis**
- Basic Financial Statements**
 - Statement of Plan Net Assets
 - Statement of Changes in
Plan Net Assets
 - Notes to Financial Statements
- Required Supplementary Information**
 - Supporting Schedules**

AUDITOR'S OPINION



Two Central Park Plaza
Suite 1501
Omaha, NE 68102

233 South 13th Street, Suite 1600
Lincoln, NE 68508-2041

Independent Auditors' Report

To the Board of Trustees of the
South Dakota Retirement System:

We have audited the accompanying statement of plan net assets and the related statement of changes in plan net assets of the South Dakota Retirement System (SDRS) as of and for the year ended June 30, 2002. These financial statements are the responsibility of SDRS management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDRS as of June 30, 2002 and the changes in plan net assets for the year ended June 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2(a) to the financial statements, SDRS adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; and GASB – Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – State and Local Government: Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2002 on our consideration of SDRS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management discussion and analysis and the supplemental schedules of Funding Progress, Employer Contributions, and Notes to Trend Data are presented in accordance with *Government Auditing Standards*. The information in those schedules is the responsibility of the management of SDRS and has been subjected to the auditing procedures applied in the audits of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplemental schedule of administrative expenses and investment expenses are not a required part of the basic financial statements of SDRS. The information in those schedules is the responsibility of the management of SDRS and has been subjected to the auditing procedures applied in the audits of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

October 29, 2002
Omaha, Nebraska



KPMG LLP, KPMG LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

1

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the South Dakota Retirement System (SDRS or the System) financial position and performance for the year ended June 30, 2002. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS Comprehensive Annual Financial Report.

- The net plan assets of SDRS decreased by \$315 million during fiscal year 2002. This decrease was primarily due to a loss of 4.9 percent in the SDRS investment portfolio and benefit payments greater than member and employer contributions.
- SDRS Funded Ratio increased to 96.7 percent from 96.4 percent in 2001.
- SDRS Reserve for Funding of Long Term Benefit Goals decreased by \$382 million. Investment performance was \$580 million below expectations for fiscal year 2002 and directly affected this decline.
- SDRS paid \$166 million to benefit recipients in fiscal year 2002 compared to \$153 million in 2001. SDRS received \$125 million in member and employer contributions in fiscal year 2002 compared to \$118 million in 2001.

Financial Highlights

Basic Financial Statements

The South Dakota Retirement System presents Statements of the Plan Net Assets as of June 30, 2002 and Statement of Changes in Plan Net Assets 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.

Overview of the Financial Statements and Accompanying Information

Notes to the Basic Financial Statements

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

Required Supplemental Information

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

Other Supplementary Schedules

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

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.

Financial Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summary of Plan Net as of June 30, 2002

	2002	2001
Assets		
Cash and cash equivalents	\$ 13,231,545	\$ 11,413,363
Receivables	50,395,015	73,049,071
Investments	4,644,002,575	5,099,394,162
Invested securities lending collateral	256,419,776	335,415,709
Due from broker	0	721,400
Capital assets	23,333	28,423
Other assets	<u>23,645</u>	<u>10,430</u>
Total Assets	\$4,964,095,889	\$5,520,032,558
Liabilities		
Accounts payable	\$ 2,138,220	\$ 1,165,130
Securities sold, but not yet purchased	66,718,632	197,148,801
Unsettled investment purchases	13,090,205	46,597,029
Due to broker	829,184	0
Securities lending collateral	<u>256,419,776</u>	<u>335,415,709</u>
Total Liabilities	\$ 339,196,017	\$ 580,326,669
Net Assets Held in Trust for Pension Benefits	<u>\$4,624,899,872</u>	<u>\$4,939,705,889</u>

Funded Ratio

The Funded Ratio is an actuarial measure of funding progress and soundness for SDRS based on the actuarial accrued liability measurement of liabilities. The ratio is equal to the Actuarial Value of Assets divided by the Actuarial Accrued Liabilities. A ratio in excess of 100 percent would indicate that the Actuarial Accrued Liability is fully funded.

The Actuarial Value of Assets is equal to the net actuarial value of assets plus the Reserve of Funding of Long Term Benefit Goals. The net actuarial value of assets is credited each year with the assumed rate of investment return and debited or credited with the SDRS liability gain or loss for the year. The resulting Actuarial Value of Assets is constrained to a range of 80 percent to 120 percent of the market value of assets and the Reserve for Funding of Long Term Benefit Goals is adjusted if these limits apply.

The Actuarial Accrued Liability is the present value of all benefits currently being paid and expected to be paid in the future to all members, less the present value of future normal cost contributions plus the Reserve for Funding of Long Term Benefit Goals.

	Actuarial Accrued Liability Funded Ratio		
	2002	2001	Change
Funded Ratio	96.7%	96.4%	.3%

Reserve for Funding of Long Term Benefit Goals

SDRS investment and liability gains and losses are allocated to the Reserve for Funding of Long Term Benefit Goals (Reserve). The Reserve is equal to the cumulative amounts credited or debited annually based on the immediate recognition of actuarial investment losses, the five year recognition of actuarial investment gains and the five year recognition of SDRS liability gains and losses. The Reserve may also be reduced to offset unfavorable experience and to maintain the minimum range of market value of assets compared to the actuarial value of assets. If benefit improvements are enacted into law, the Reserve is reduced by the present value of those benefit improvements. The Reserve is primarily impacted by investment performance above or below expectations. Investment returns below the assumed rate this year dramatically decreased the Reserve.



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

Revenues — Additions to Plan Net Assets

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is currently 8.0 percent. While, over the long term, SDRS investment performance has exceeded this assumed rate, during the last two years, the assumed rate has not been achieved, and in fact, the investment returns have been negative at -2.9 percent in 2001 and -4.9 percent in 2002.

Revenue	2002	2001	% Change
Member contributions	\$ 66,311,285	\$ 62,310,957	6.4%
Employer contributions	58,544,918	55,697,940	5.1%
Investment income	(248,826,201)	(154,774,807)	(60.8)%
Total Revenues	<u>\$(123,969,998)</u>	<u>\$(36,765,910)</u>	<u>(237.2)%</u>

Deductions from Plan Net Assets are primarily benefit payments. During 2002, SDRS paid \$166 million to benefit recipients or 8.5 percent more than 2001. The increase is due to added recipients and the annual 3.1 percent COLA. The number and amount of refunds of accumulated contributions during 2002 decreased. Terminating members are increasingly leaving their accumulated balances in the system as an investment or in anticipation of receiving a benefit. Administrative costs of SDRS represent less than .06 percent of Plan Net Assets.

Expenditure — Deductions from Plan Net Assets

Expenditures	2002	2001	% Change
Benefits	\$166,265,639	\$153,192,955	8.5%
Refunds of contributions	22,130,027	24,227,022	(8.7)%
Administrative expenses	2,440,353	2,403,024	1.6%
Total Expenditures	<u>\$190,836,019</u>	<u>\$179,823,001</u>	<u>6.1%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 Council may utilize the services of external money managers.

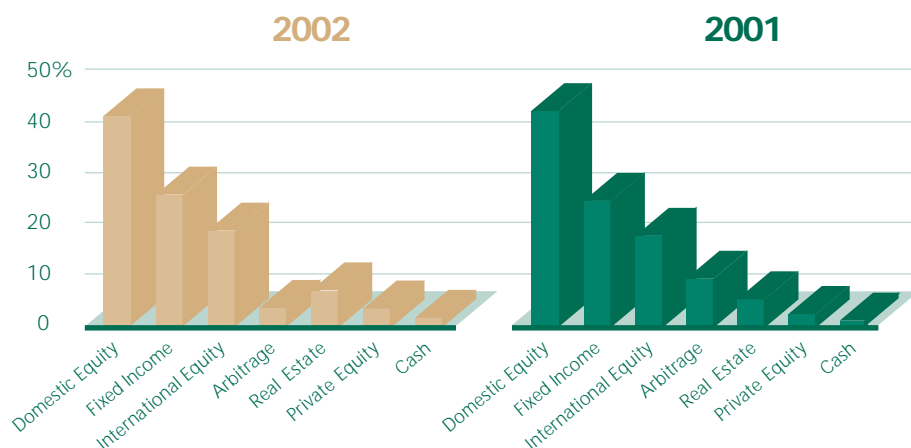
Investment performance during the last two years has been below the actuarial assumed rate of 8 percent at -2.9 percent in 2001 and -4.9 percent in 2002. While these nominal returns for the two years are well below the investment return assumption, the relative performance is in the top quartile compared to other state plans.

The Investment Council is governed by the Prudent Man Standard as defined in South Dakota Codified Law 4-5-27:

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

Though monthly benefit payments exceed monthly contributions, the South Dakota Retirement System 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.

Investment Summary



Plan Status

While the markets have not made it possible to achieve investment returns necessary to meet long term assumptions during the last two years, SDRS' funding remains sound. The Reserve for Funding of Long Term Benefit Goals has provided a process for both improving benefits and protecting the system in down markets.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Assets

Cash and cash equivalents	\$ 13,231,545
Receivables	
Employer	2,407,518
Employee	5,791,308
Benefits	78,698
Unsettled investment sales	21,238,344
Investment income	<u>20,879,147</u>

Total receivables	50,395,015
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Investments, at fair value

Fixed income	1,821,343,971
Equities	2,358,923,316
Real estate	293,392,398
Private equity	<u>170,342,890</u>

Total investments	4,644,002,575
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Invested securities lending collateral	256,419,776
Capital assets, at cost (net of accumulated depreciation of \$27,816)	23,333
Other assets	<u>23,645</u>

Total Assets	4,964,095,889
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Liabilities

Payables	
Accounts payable and accrued expenses	2,138,220
Securities sold, but not yet purchased, at fair value	66,718,632
Unsettled investment purchases	13,090,205
Due to brokers, future transactions	829,184
Securities lending collateral	<u>256,419,776</u>

Total Liabilities	339,196,017
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Net Assets Held In Trust For Pension Benefits	\$ 4,624,899,872
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(A schedule of funding progress is presented in the Required Supplemental Information)

The accompanying notes are an integral part of the financial statements

BASIC FINANCIAL STATEMENTS (CONTINUED)

Statement of Changes in Plan Net Assets

For the year ended
June 30, 2002

Additions

Contributions:	
Employee	\$ 66,311,285
Employer	<u>58,544,918</u>

Total contributions	\$ 124,856,203
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Investment income:

From investing activities

Net decrease in fair value in investments	(388,314,209)	
Interest	92,795,082	
Dividends	45,609,963	
Real estate	<u>11,335,600</u>	
Investment activity loss	(238,573,564)	
Less investment activity expenses	<u>(11,363,016)</u>	
Net investment activity loss		(249,936,580)

From security lending activities

Security lending income	7,667,886	
Security lending expenses	<u>(6,557,507)</u>	
Net security lending activity income		<u>1,110,379</u>

Total investment loss	\$ (248,826,201)
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Total additions	\$ (123,969,998)
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Deductions

Benefits	166,265,639
Refunds of contributions	22,130,027
Administrative expenses	<u>2,440,353</u>

Total deductions	\$ 190,836,019
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Net decrease	<u>(314,806,017)</u>
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Net assets held in trust for pension benefits

Beginning of year	<u>4,939,705,889</u>
End of year	<u>\$ 4,624,899,872</u>

The accompanying notes are an integral part of the financial statements.



Notes to Financial Statements

1. General Description of the System:

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple employer public employee retirement system (PERS) established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. Members of SDRS include full-time employees of public schools, the State of South Dakota, 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 was consolidated from the previous public employee retirement systems effective July 1, 1974 to provide an orderly means of continuing benefits for those already retired and those eligible to retire from the respective systems. SDRS is considered a part of the State of South Dakota financial reporting entity and is included in the state's financial report as a pension trust fund. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law (SDCL) 3-12.

The South Dakota Retirement System Board of Trustees 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 non-voting representative of the South Dakota Investment Council. The elected representatives of the Board of Trustees 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 justice, judge, or magistrate judge; a county commissioner of a participating county; a school district board member and 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 two classes of members; Class A — general members and Class B — public safety and judicial 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 of South Dakota.

SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Class A members and Class B Judicial members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Judicial members where the sum of age and credited service is equal to or greater than 80. Class B Public Safety members can retire with an unreduced annual retirement benefit after age 55 with three years of credited service. An unreduced annual retirement benefit is also available after age 45 for Class B Public Safety members where the sum of age and credited service is equal to or greater than 75. All retirement benefits that do not meet the above criteria may be payable at a reduced level. All benefits receive an annual cost of living increase of up to 3.1 percent each July 1st. The first year increase is prorated for the number of months the benefit is received.

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 has received a favorable determination letter.

As of June 30, 2002, the number of participating governmental employers was:

School Districts	187
State of South Dakota	1
Board of Regents	1
Municipalities	138
Counties	62
Boards and Commissions	73
Total Employers	<u>462</u>

At June 30, 2002, SDRS Membership consisted of:

Retirees and Beneficiaries currently receiving benefits:

Class A (General employees)	15,146
Class B Public Safety and Judicial employees	<u>747</u>
Total Retirees and Beneficiaries	<u>15,893</u>

Terminated members entitled to benefits but not yet receiving them:

Class A (General employees)	11,146
Class B Public Safety and Judicial employees	<u>316</u>
Total Terminated members	<u>11,462</u>

Current active members:

Vested:	
Class A	25,486
Class B Public Safety and Judicial	1,634
Nonvested:	
Class A	7,447
Class B Public Safety and Judicial	<u>563</u>
Total Current active members	<u>35,130</u>
Grand Total	<u>62,485</u>

BASIC FINANCIAL STATEMENTS (CONTINUED)

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 accounting principles generally accepted in the United States of America applicable to governmental accounting for a pension trust fund. Revenue is recorded when earned and expenses recorded when incurred. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits are recorded when payable and refunds are paid and recorded upon receipt of an approved application.

GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, was issued in June 1999 and adopted by SDRS effective July 1, 2001. This statement established new financial reporting requirements for state and local governments. GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus*, was issued in June 2001 and adopted by SDRS effective July 1, 2001. The adoption of these standards had no impact on the statement of net assets held in trust for pension benefits but required the presentation of SDRS' Management Discussion and Analysis (MD&A). MD&A is considered to be required supplemental data and precedes the financial statements.

(b) Method Used to Value Investments:

Investments are carried at fair value to properly reflect the asset values of the fund at June 30, 2002. Fair values were determined based on closing market prices at June 30, 2002 for those securities traded on national and international stock exchanges and at the average of bid-and-asked quotations for those securities traded in the over-the-counter market. Investments not traded on any exchange are valued at fair value based on estimates made by management. The value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Real estate is valued at market based upon annual appraisals. Net depreciation in the fair value of investments held at or traded during the 12 months prior to June 30, 2002 are determined using an average cost basis. Purchases and sales are recorded as of the trade date.

The equity securities include common stocks, preferred stocks, convertible debentures, arbitrage securities and equity international funds. The fixed

income securities include U.S. government and government backed bonds and corporate bonds.

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

Interest and dividends are accrued in the period in which they are earned.

3. Contributions and Reserves:

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

- Class A members — 5.0% of salary
(Effective 7-1-2002 — 6.0% of salary)
- Class B Judicial members — 9.0% of salary
- Class B Public Safety members — 8.0% of salary

All participating employers are required to contribute an amount equal to the member's contributions. Members may make an additional contribution of 8/10 of 1 percent of compensation for optional spouse coverage.

SDRS is funded by fixed member and employer contributions at a rate established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contractually required contributions to pay the normal cost and expenses, and to amortize the frozen unfunded actuarial accrued liability. The June 30, 2002 actuarial valuation of the plan determined that the contractually required employer contributions equals the requirements for the annual required contribution of the employers under GASB Statement No. 25 since the contractually required employer contributions are sufficient to pay the employer normal cost and expenses, and to amortize the frozen unfunded actuarial accrued liability over a period of less than 40 years (20 years as of June 30, 2002).

Contributions during fiscal 2002 totaling \$124,856,203 (\$66,311,285 employee and \$58,544,918 employer) were made in accordance with statutory rates. These contributions represent 11.6 percent of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits

over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up to 10 years. Interest is charged at rates of 5 percent to 8 percent. Future payments will be received as follows:

<u>Year Ending June 30</u>	<u>Employers</u>	<u>Employees</u>
2003	\$ 38,923	\$1,804,495
2004	34,743	867,951
2005	20,544	527,830
2006	10,559	336,171
2007	0	183,379
Later	0	197,010
	104,769	3,916,836
Less amount representing interest Deferred contributions receivable at June 30, 2002	<u>10,135</u>	<u>484,023</u>
	<u>\$ 94,634</u>	<u>\$3,432,813</u>

Reserves — The Reserve for Funding of Long Term Benefit Goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The Reserve is annually credited with 20 percent of the actual investment return amount and 20 percent of the actuarial experience amount above or below the assumed amount over rolling five year periods. Effective June 30, 2001, a change in methodology provided for immediate recognition of 100 percent of actuarial investment losses. In addition, the Reserve is adjusted if the actuarial value of assets deviates from a range of plus or minus 20 percent of the plan's market value and is reduced if the projected period to amortize frozen unfunded actuarial accrued liabilities exceeds 30 years. The actuarial value of assets is the smoothed market based valuation method used in the SDRS actuarial valuation. As of June 30, 2002, the actuarial value of assets equaled \$4,425,392,396. The Reserve is added to both the present value of future benefits and the actuarial value of assets. As of June 30, 2002, the balance in the Reserve for Funding of Long Term Benefit Goals is \$(28,991,699).

4. Investments:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council, which may utilize the services of external money managers for management of a portion of the portfolio. The South Dakota Investment Council is governed by the Prudent Man Rule (that is, the council should use the same degree of care as a prudent man). Current Investment Council investment policies dictate limits on the percent of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, etc.).

Cash and Cash Equivalents are invested in short term instruments or short term investment funds by the external money managers and the South Dakota Investment Council and are held at cost. Cash held by the State Treasurer of \$13,231,545 was invested in the State's pooled investment fund. The external money managers did not hold cash in SDRS accounts. Investments of this fund consist primarily of commercial paper rated A1 or P2 or better, short term U.S. treasury obligations, bank CDs and money market funds.

Investments at June 30, 2002 were being managed by the following:

	<u>Fair Value</u>	<u>Cost</u>
State of South Dakota Investment Council	\$3,972,673,163	\$3,889,029,757
Dimensional Fund Advisors, Inc.	22,582,552	25,000,000
Capital International	54,546,376	58,304,720
Acadian International	53,244,190	53,122,180
Blackstone Real Estate Partners	203,372,044	187,889,264
Apollo	79,810,200	77,304,577
Nicholas Applegate	25,062,901	24,182,582
AIG	15,504,088	16,687,254
DLJ Merchant Bankers	14,057,564	16,931,974
Doughty Hanson	10,210,154	10,570,205
Crossroads	66,438,403	72,108,615
Silver Lake	16,365,456	20,286,613
KKR	6,394,412	6,220,412
MW Post Advisors Partners L.P.	58,560,801	59,313,320
Cypress Merchant Banking Partners L.P.	<u>45,180,271</u>	<u>57,854,841</u>
Total Investments	4,644,002,575	4,574,806,314
Securities sold, but not yet purchased	<u>(66,718,632)</u>	<u>(71,495,669)</u>
Total	\$4,577,283,943	\$4,503,310,645

Investments managed by the South Dakota Investment Council consist of domestic and international equity securities, government and corporate fixed income instruments and short term investments. MW Post invests in fixed income securities. Capital International Emerging Markets, Acadian, Nicholas Applegate, and Dimensional Fund Advisors invest in international equities. Blackstone, Doughty Hanson and Apollo invest in real estate. DLJ Merchant Bankers, KKR, AIG, Capital International Emerging Markets Private Equity, Crossroads, Silver Lake and Cypress invest in private equity.

BASIC FINANCIAL STATEMENTS (CONTINUED)

The following table presents the investments held by SDRS on June 30, 2002, categorized to give an indication of the level of risk assumed by SDRS at year-end. The categories are:

- Insured or registered, or securities which are held by SDRS or its agent in SDRS' name.
- Uninsured and unregistered, with securities held by the counterparty's trust department or agent in SDRS' name.
- Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in SDRS' name.

During fiscal year 2002, the System's investments (including investments bought, sold, as well as held during the year) depreciated in value by \$388,314,209.

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.

Change in Fair Value of Investment

	Year Ended June 30, 2002
Increase (decrease) in fair value of investments:	
Equity securities	\$(343,053,294)
Fixed income securities	4,439,514
Real estate	710,970
Private equity	<u>(6,927,565)</u>
Total decrease in fair value	\$(344,830,375)
Realized gain on investments sold:	
Equity securities	10,543,391
Fixed income securities	(4,811,061)
Real estate	10,236,820
Private equity	<u>(10,119,687)</u>
Total net realized gains	\$ 5,849,463
Net loss on futures contracts	<u>(49,333,297)</u>
Net decrease in fair value of investments	<u>\$(388,314,209)</u>

Investments Held By SDRS

as of June 30, 2002

	1	2	3	Fair Value	Cost
Equity securities (common stocks, preferred stocks and convertible debentures)	\$1,434,816,440	\$100,596,946	\$0	\$1,535,413,386	\$1,461,857,007
U.S. government and government backed bonds	689,745,159	280,960,629		970,705,788	942,227,265
Corporate bonds	390,843,974	155,556,780		546,400,754	565,936,541
International equities	<u>727,720,797</u>			<u>727,720,797</u>	<u>727,210,714</u>
Subtotal	<u>\$3,243,126,370</u>	<u>\$537,114,355</u>	<u>\$0</u>	<u>3,780,240,725</u>	<u>3,697,231,527</u>
Money Market funds				304,237,429	304,233,730
Real estate funds				293,392,398	275,764,045
Equity international fund				95,789,133	100,424,616
Private Equity				<u>170,342,890</u>	<u>197,152,396</u>
Total Investments				4,644,002,575	4,574,806,314
Securities sold, but not yet purchased				<u>(66,718,632)</u>	<u>(71,495,669)</u>
Security lending collateral:					
Investment Portfolios				253,543,467	253,543,467
Pooled Funds				<u>2,876,309</u>	<u>2,876,309</u>
Total				<u>\$4,833,703,719</u>	<u>\$4,759,730,421</u>

5. Derivatives:

Derivatives are generally defined as contracts whose value depends on, or derive from, the value of an underlying asset, reference rate or index. SDRS is exposed to a variety of derivative products through the investment management of the South Dakota Investment Council and their outside managers.

The South Dakota Investment Council purchases and sells financial and interest rate futures as a means of adjusting the SDRS portfolio mix and as a lower transaction cost substitute for transactions which would otherwise occur in the underlying portfolios. Futures contracts outstanding at June 30, 2002 were as follows:

Description	Open Positions	Number of Contracts	Fair Value
S & P 500 Index due 9/19/2002	Long	1,712	\$423,638,680
NASDAQ 100 Index due 9/19/2002	Long	42	\$4,415,922
U.S. Treasury Note due 9/19/2002	Short	(70)	\$9,625,910

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. 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 use of futures contracts is subject to various market risks. The maximum amount at risk from the purchase (long position) of a futures contract is the contract value. The amount at risk from the sale (short position) of a futures contract depends upon the amount that the contract rises in value. Although short positions have theoretically no maximum risk, the SDRS short positions are hedged against the underlying portfolio to limit the exposure. Each S&P 500 contract is defined as 250 times the price of the S&P 500 index. Each note and bond contract is defined as 100,000 par value of a 6 percent U.S. treasury securities adjusted for duration.

The hedging guidelines of the SDRS arbitrage portfolios managed by the Investment Council provide that stock and other non-cash considerations to be received may be hedged through the use of options, short sales or when-and-if issued sales. The two arbitrage portfolios had short sales valued at

\$66,718,632 as of June 30, 2002. A short sale involves the sale of securities not yet owned but borrowed through a broker to be later repurchased to cover the loan. The arbitrage portfolios use the short sales to hedge the disparities between the existing price of a security and the present value of considerations to be received as a result of restructuring or merger activity.

The South Dakota Investment Council also enters into foreign exchange forward contracts to hedge foreign currency transactions. These contracts are purchased to reduce the impact of foreign currency fluctuations. The Investment Council does not engage in foreign currency speculation. The contracts do not subject SDRS to risk due to exchange rate movements as gains and losses on the contracts offset gains and losses on the transactions being hedged.

SDRS' theoretical risk in these transactions is the cost of replacing, at current market rates, these contracts in the event of default by the other party. Management believes the risk of incurring such losses is remote as the contracts are entered into with major financial institutions.

In addition to the derivatives listed above, the SDRS fixed income portfolio also held mortgage-backed securities in the form of GNMA's, FHLMC's and FNMA's. The fair value of these securities as of June 30, 2002 was \$475,618,673. These securities may be subject to prepayment by mortgagees, which may reduce the fair value of these securities. The Investment Council is using this investment to enhance fixed returns.

6. Security Lending:

The South Dakota Investment Council's policies and the contract with Citibank, N.A. and Lehman Brothers Inc. permit the Investment Council to use investments of SDRS to enter into securities lending transactions — loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Investment Council's securities custodian is an agent in lending securities for cash collateral of the following percentages:

Collateral Type	Margin Required
Cash	100%
US Governments	102
US Agencies	102
US Sponsored Agencies	102
Asset Backed (AAA)	105
Corporates (AAA)	110
Money Market (A1/P1 — under 1 year)	102

The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines that

BASIC FINANCIAL STATEMENTS (CONTINUED)

are designed to ensure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agents.

Securities on loan on June 30, 2002 are presented as unclassified in the custodial credit risk schedule. At year end, the Investment Council has no credit risk exposure to borrowers because the amounts the Council owes the borrowers exceed the amounts the borrowers owe the Council. The contract with the lending agent requires the agent to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

All securities loans can be terminated on demand by either the Investment Council or the borrower, although the average terms of the loans is one business day. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short term investments. The ability to pledge or sell collateral securities can be made without borrower default. In addition, no restrictions on the amount of the loans exist.

These loans are part of the investment portfolios. Collateral consisting of cash value of 102 percent of the market value of the securities loaned were placed on account for the securities lending program.

7. Capital Assets:

Asset purchases are capitalized at cost and depreciated on a straight-line basis over 4-to-15 years.

8. Compensated Absences:

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2002, a liability existed for accumulated annual leave calculated at the employee's June 30, 2002 pay rate in the amount of \$99,342. Employees who have been continuously employed by SDRS and the State of South Dakota 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, 2002, a liability existed for accumulated and accrued sick leave, calculated at the employee's June 30, 2002 pay rate in the amount of \$119,348. The total leave liability of \$218,690 is on the Statement of Net Assets Available for Benefits in accounts payable and accrued expenses.

9. Operating Leases:

The South Dakota Retirement System has entered into an agreement to lease office space. The lease was effective September 2002 and has a term of 5 years. A schedule of minimum office rental payments as of June 30, 2002 is as follows:

Fiscal Year Ending June 30	Amount
2003	\$81,347
2004	81,347
2005	81,347
2006	81,347
2007	<u>81,347</u>
Total Remaining Minimum Payments	<u>\$ 406,735</u>

10. Deferred Compensation:

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. The Plan 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 Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are at all times until made available to a participant or the participant's beneficiary, held in trust for the exclusive benefit of the participants.

Of the \$66,587,429 net assets available for Plan benefits at June 30, 2002, \$47,163,997 was held in trust for employees of the State of South Dakota while the remaining \$19,423,432 represents the assets held in trust for employees of other jurisdictions in the Plan. In order to avoid duplication in reporting, the SDRS total of \$336,865 is included in the State of South Dakota total and the State's Comprehensive Annual Financial Report for the year ended June 30, 2002.

REQUIRED SUPPLEMENTARY INFORMATION

Amounts prior to June 30, 2001 were audited by other auditors.

Schedule of Funding Progress

(Dollar amounts in millions)

Actuarial Valuation Date ¹	(a)	(b)	Unfunded Actuarial Liability [UAAL] (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	Actuarial Value of Assets	Actuarial Liability — Entry Age [AAL]				
6-30-90	\$1,275.1	\$1,404.6	\$129.5	90.8%	\$ 582.7	22.2%
6-30-92 ²	1,605.5	1,714.5	109.0	93.6	694.3	15.7
6-30-94	1,945.9	2,108.3	162.4	92.3	788.6	20.6
6-30-96	2,390.2	2,539.0	148.8	94.1	820.1	18.1
6-30-97	2,813.3	2,956.5	143.2	95.2	835.1	17.1
6-30-98	3,337.3	3,471.9	134.6	96.1	875.9	15.4
6-30-99	3,875.2	3,997.9	122.8	96.9	902.5	13.6
6-30-00 ²	4,427.1	4,611.9	184.8	96.0	944.6	19.6
6-30-01	4,521.4	4,688.4	167.0	96.4	1,029.7	16.2
6-30-02	4,425.4	4,576.9	151.5	96.7	1,080.1	14.0

For the Year Ended June 30	Annual Required Contributions	Percentage Contributed
1993	\$39,319,892	100%
1994	43,991,265	100
1995	46,238,393	100
1996	45,022,762	100
1997	47,664,275	100
1998	47,145,364	100
1999	50,069,614	100
2000	52,622,437	100
2001	55,697,940	100
2002	58,544,918	100

Schedule of Employer Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Notes to Trend Data

Valuation Date	6-30-2002
Actuarial Cost Method	Entry Age with Frozen Unfunded Actuarial Accrued Liability
Amortization Method	Level Percentage-Open
Remaining Amortization Period	20 Years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return ³	8%
Projected Salary Increase ³	4.9% to 8.9%
based on age, with average of 5.5%	
Cost-of-Living Adjustments	3.1%

¹ Prior to fiscal year 1996, SDRS actuarial valuations were performed biennially.

² Actuarial assumption changes occurred during fiscal years 1991 and 2000.

³ Includes Inflation at 4.5 percent

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2002

	Cash Basis	Accrual Basis
Personal Services		
Salary and Per Diem	\$ 953,479	\$ 962,282
Employee Benefits	<u>227,635</u>	<u>236,568</u>
Total Personal Service	1,181,114	1,198,850
Operating Expenses		
Travel	36,888	36,028
Contractual Services		
Finance	79,325	79,325
Valuations	172,177	169,177
Consulting	167,738	167,738
Studies	131,240	73,740
Legal	8,590	8,590
Communications	85,076	85,076
Medical	18,824	18,824
Operations	<u>356,853</u>	<u>338,269</u>
Total Contractual Services	1,019,823	940,739
Supplies and Materials	236,112	212,815
Capital Assets	<u>73,903</u>	<u>51,921</u>
Total Operating Expenses	<u>1,366,726</u>	<u>1,241,503</u>
Total Administrative Expenses	<u>\$2,547,840</u>	<u>\$2,440,353</u>

Schedule of Investment Expenses for the Year Ended June 30, 2002

	Investment Managers	Management Expense
South Dakota Investment Council		\$ 3,108,362
Dimensional Fund Advisors, Inc.		59,547
Acadian International		56,387
Blackstone Real Estate Partners		2,177,610
Apollo		1,025,676
Nicholas Applegate		449,216
DLJ Merchant Bankers		164,420
KKR		675,000
Crossroads		838,239
Silver Lake		650,293
Doughty Hanson		1,034,503
MW Post		127,588
Cypress Merchant Banking Partners L.P.		<u>996,175</u>
Total Investment Manager Expenses		<u>\$11,363,016</u>

ACTUARIAL SUMMARY



	Actuary's Opinion
	Actuarial Overview
	Actuarial Valuation
Summary of Benefit Changes and 2002 Actuarial Valuation	
	Plan Summary

ACTUARY'S OPINION

BUCK CONSULTANTS®

A Mellon Consulting Company

1200 17th Street, Suite 1200
Denver, Colorado 80202

November 15, 2002

Board of Trustees
South Dakota Retirement System
Post Office Box 1098
Pierre, SD 57501-1098

This report summarizes the results of Buck Consultants' annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2002.

This Actuarial Valuation is based on financial and Member data provided by SDRS and summarized in this report. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All Members of Participating Units of SDRS and all benefits in effect on July 1, 2002 have been considered in this Actuarial Valuation.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS have been selected by Buck Consultants and approved by the Board of Trustees, and along with all supporting schedules, meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Buck Consultants is solely responsible for the following supporting schedules contained in this report: Actuarial Assumptions and Methods, Development of the SDRS Actuarial Value of Assets, Summary of Accrued and Unfunded Accrued Liability, Solvency Test, Comparison of Actuarial Valuation Results, Schedule of Funding Progress, and Analysis of Financial Experience.

SDRS is funded by Employer and Member Contribution rates as established by South Dakota law. The funding objective for SDRS is that the required contributions remain level as a percent of Member Compensation at the statutory rates. The SDRS Board of Trustees has also established a funding objective that the statutorily required contributions be sufficient to pay the Normal Costs of SDRS, System Expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of Member Compensation over an open period not to exceed 30 years.

As noted below, this objective is currently being met and is projected to continue to be met.

Our calculations and analysis indicate that the System is meeting its funding objectives and is in actuarial balance. The combined statutory Employer/Member Contributions are sufficient to pay the current Normal Costs and Expenses of the System and amortize the Unfunded Actuarial Accrued Liability over 20 years from July 1, 2002. The contractual Employer Contribution rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.

The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2002 is 96.7%.

SDRS is actuarially sound.

Respectfully Submitted,



R. Paul Schrader, A.S.A.
Consulting Actuary

Enclosure

Buck Consultants, Inc.

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ACTUARIAL OVERVIEW

An Actuarial Valuation of SDRS is performed as of June 30 each year. Prior to 1996, in odd-numbered years, an update was made which considered expected changes in the actuarial measures due to the assumed experience of the system as well as the effect of any changes in value of assets, actuarial valuation methods, or benefit provisions.

In the 2002 Actuarial Valuation, two important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- Actuarial Accrued Liability Funded Ratio
- Funding Period

The Actuarial Accrued Liability (AAL) is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions. The Actuarial Accrued Liability Funded Ratio is a required accounting disclosure. The measure is equal to the actuarial value of assets divided by the AAL. A ratio in excess of 100 percent indicates that projected accrued benefits are funded.

The Funding Period measures the length of time required to amortize unfunded actuarial accrued liabilities as well as pay the on-going normal costs, interest charges and expenses with the current contributions. The shorter the Funding Period the more favorable the actuarial measure.

Actuarial Accrued Liability

Measures of Actuarial Soundness

	2001 Actuarial Valuation	2002 Actuarial Valuation
Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)	96.4%	96.7%
Funding Period	20 years	20 years

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was -4.9 percent, substantially less than the assumed rate of 8.0 percent. The dollar-weighted annualized investment performance based on the market value of assets for the period was -5.1 percent. This results in an Actuarial Investment Loss of \$580 million. The net actuarial value of assets was credited a rate of return of 8.0 percent for the one-year period ending June 30, 2002. The Reserve for Funding of Long Term Benefit Goals was reduced by \$382 million as a result of the fiscal year 2002 investment losses.

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2002

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2002

Change due to Liability Experience	Present Value of All Benefits	Percentage of Present Value of All Benefits
Loss Due to Salary Increases	\$(1M)	(.02)%
Gain Due to Decrements	11M	.20%
Loss Due to New and Rehired Members	(7M)	(.12)%
Miscellaneous Gain	4M	.07%
Total Actuarial Liability Gain	\$7M	.13%

Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 8 percent a year compounded annually plus prefunding of improvement factor; b) projected Social Security Cost-of-Living increases of 4.5 percent and wage base increases of 5.5 percent per year compounded annually; c) post-retirement benefit increases of 3.1 percent per year compounded annually; d) active participant experience including projected salary increases that average 5.5 percent per year compounded annually; e) 80 percent of active members and 75 percent of retired and terminated members are assumed to be married; f) the male spouse is assumed to be three years older than the female spouse; g) mortality rates for active and non-disabled pensioners are based upon the 1995 Buck Mortality Table; and h) at termination of employment, members will elect the more valuable of the Accumulated Contributions or the deferred vested benefit. These assumptions were adopted in 1990 and modified in 1998. A detailed experience analysis was conducted in 1999, and appropriate modifications in the assumptions were made effective with the July 1, 2000, Actuarial Valuation.

Effective with the year ended June 30, 1995, the actuarial costs defined under the entry age normal method were modified to freeze unfunded liabilities and recognize plan gains and losses directly in the normal cost by amortizing them over the assumed future payroll of the membership. The calculation of the actuarial value of assets was also modified at that time.

Also effective with the year ended June 30, 1995, the calculation used to determine the actuarial value of assets was changed to credit the assumed investment return immediately, and investment earnings above (Actuarial Investment Gains) and below (Actuarial Investment Losses) the assumed rate are recognized at the rate of 20 percent per year over a five year period. The calculation also reflects liability gains and losses on the same basis. Effective with the year ended June 30, 2001, the calculation was changed to recognize immediately any Actuarial Investment Losses. These gains and losses are allocated to the Reserve for Funding of Long Term Benefit Goals. The Reserve was first implemented as of the year ended June 30, 1995, to fund benefit improvements and provide the plan with protection against adverse experience. The investment and liability gains and losses will impact the actuarial value of assets, Reserve for Funding of Long Term Benefit Goals and AAL.



Reserve for Funding of Long Term Benefit Goals as of June 30, 2001	\$353,417,817
Less Amount Allocated for Year	(382,409,517)
Less Present Value of All Benefits for Improvements Enacted into Law	0
Reserve for Funding of Long Term Benefit Goals as of June 20, 2002	\$(28,991,700)

Reserve for Funding Long Term Benefit Goals

As of June 30, 2002, there is an additional \$143,605,587 in gains to be allocated to the Reserve over the next four years.

Actuarial Assumption Tables

Sample Separation Rates

Age	Annual Rate per 100 Members				
	Mortality		Disablement		
	Male	Female	A ¹	B ²	Female
25	0.07	0.02	0.08	0.09	0.10
30	0.07	0.02	0.08	0.10	0.11
35	0.07	0.03	0.10	0.14	0.12
40	0.10	0.05	0.12	0.20	0.15
45	0.14	0.07	0.16	0.31	0.22
50	0.22	0.11	0.24	0.52	0.33
55	0.35	0.17	0.40	0.99	0.58
60	0.64	0.24	0.84	1.50	1.10
65	1.24	0.41	1.71	2.00	1.85

Age	Annual Turnover Rate per 100 Members		
	Teachers	Judicial, Municipal and General Members	Class B Public Safety Members
25	18.20	22.40	16.80
30	13.70	16.40	13.20
35	8.60	12.60	9.60
40	5.20	9.50	7.00
45	3.40	7.70	4.80
50	2.80	6.00	3.96
55	2.30	3.06	2.04

Retirement Age Class B Public Safety

Age	Annual Rate per 100 Members Eligible to Retire
50	5
51	5
52	5
53	5
54	5
55	30
56	30
57	40
58	50
59	50
60	50
61	50
62	100

Retirement Age Class A and B Judicial

Age	Annual Rate per 100 Members Eligible to Retire
55	8
56	8
57	8
58	8
59	8
60	10
61	10
62	20
63	25
64	25
65	50
66	50
67	50
68	100

Compensation Progression Sample Rates

Age	Ratio of Compensation at Age 65 to Salary at Current Age	Percentage Increase in Year Following Indicated Age
25	11.22	8.90%
30	7.44	7.60
35	5.18	7.40
40	3.69	6.40
45	2.75	5.61
50	2.11	5.28
55	1.63	5.14
60	1.27	5.00
64	1.05	4.92

¹ Judges, Teachers, Municipal and General Members
² Class B Public Safety Members

ACTUARIAL OVERVIEW (CONTINUED)

Benefit Changes

The June 30, 2002 measures of actuarial soundness reflect changes in plan provisions enacted by the South Dakota State Legislature in 2002.

The benefit changes are outlined in the Summary of Plan Changes section of this report and in the notes to the financial statements.

The 2002 benefit changes for Class A members were fully funded by the increase in member and employer contributions. As a net result of system membership changes in 2002, the normal cost rate increased by 0.164 percent. The Funded Ratio increased by 0.3 percent.

Actuarial Impact of Benefit Changes

	2001 Actuarial Valuation Results	Benefit Changes Effective July 1, 2002 ¹	System Investment and Liability Experience for year ²	Membership Changes and Maturity of System ³	2002 Actuarial Valuation Results
Normal Cost Rate with Expense Provision	9.491%	1.873%	—	.164%	11.528%
Funding Period	20 years	—	—	—	20 Years
Actuarial Accrued Liability Funded Ratio	96.4%	—	—	.3%	96.7%

As a net result of benefit changes effective July 1, 2002, and of system membership changes and the maturity of the system in 2002, the normal cost rate increased 2.037 percent and the Funded Ratio increased by 0.3 percent.

¹ Benefit improvements effective July 1, 2002, were funded in total by the increase in member and employer contributions.

² All SDRS asset and liability gains and losses are smoothed and allocated directly to the Reserve for Funding of Long Term Benefit Goals.

³ Future SDRS membership changes will cause minor changes in the Normal Cost Rate even with the smoothing of all asset and liability gains and losses. The Funding Period has been frozen at 20 years. The Actuarial Accrued Liability Funded Ratio will gradually increase as the Frozen Unfunded Actuarial Accrued Liability becomes a smaller percentage of the total SDRS liabilities.

ACTUARIAL VALUATION

This section analyzes the ability of member and employer contributions to fund the obligations of the system. These obligations include both past and future liabilities.

In order for the system to be actuarially sound, the combined employer/member contribution rate must be adequate to pay the normal cost¹ of the system, system expenses, amortize the unfunded actuarial accrued liability² over a limited time, and pay interest on that liability.

SDRS' funding requirements for 2002, expressed as a percentage of payroll and total contributions, are based on the 2002 actuarial valuation and are summarized in the chart below.

	SDRS 2002 Funding Requirements	
	As a Percentage of Payroll	As a Percentage of Contributions
Matching Statutorily Required Employer/Member Contribution Rate	12.433% ³	100.0%
Entry Age Normal Contribution Rate at Mid-Period	11.205%	90.1%
Expense Allowance	.323%	2.6%
Total Funding Requirement Before Amortization of Frozen Unfunded Actuarial Accrued Liability	11.528%	92.7%
Contribution Rate Available to Amortize Frozen Unfunded Actuarial Accrued Liability as a Level Percent of Payroll	.905% ⁴	7.3%

The 2002 Actuarial Valuation indicates a contribution of .905 percent of payroll allocated to the unfunded liability is sufficient to pay interest and amortize the principal over 20 years.

Given the current system benefits and the present actuarial assumptions and methods, a small percentage of the contributions is allocated to payment of principal and interest.

The 2002 Actuarial Valuation confirms that:

- a. The current benefit levels for active members including expenses require 93 percent of the total contributions under the current actuarial assumptions and methods.

¹ Normal cost is the total contribution rate which would fund all system benefits if that rate continues in the future.

² The frozen unfunded actuarial accrued liability is the difference between the assets which would have accumulated if the normal cost had always been contributed to the system and the present assets of the system, and is frozen with respect to experience gains and losses. It is reduced by the excess of member and employer contributions over interest on the unfunded actuarial accrued liability, expenses, and normal cost.

³ Class A employers and members each statutorily contribute 6 percent of pay effective July 1, 2002. Class B employers and members each statutorily contribute 8 percent or 9 percent of pay. Participating members also contribute for the Optional Spouse Coverage and Class A employers contribute 6.2 percent of members' pay in excess of the Social Security maximum taxable pay. The total statutory contributions to SDRS as of July 1, 2002 are 12.433 percent of pay.

⁴ Will amortize Frozen Unfunded Actuarial Accrued Liability over 20 years from 2002.

ACTUARIAL VALUATION (CONTINUED)

- b. While excess investment income has been the most significant element of favorable experience in the past, SDRS experienced an Actuarial Investment Loss in both fiscal year 2001 and 2002.

The Actuarial Valuation methodology results in the elimination of volatility in the actuarial measures because:

- a. The expected investment return of 8 percent of the actuarial value of assets and liability gains and losses are allocated to the actuarial value of assets.
- b. Twenty percent of Actuarial Investment Gains and liability gains and losses each year are allocated to the Reserve for Funding of Long Term Benefit Goals for five years. All Actuarial Investment Losses are allocated immediately to the Reserve. In periods of sustained gains, the Reserve will accumulate sufficient assets for pre-funding benefit improvements. In the event of sustained losses, the Reserve will be available to offset negative experience and dampen the volatility of short term negative experience.

The 2002 Actuarial Valuation indicated that the employer-member contribution rates were adequate to pay the current costs of the system (normal cost plus expenses) and amortize the unfunded actuarial accrued liability over 20 years. The SDRS Funding Period will remain at 20 years in accordance with the Board of Trustees funding policy.

Actuarial Soundness

The conclusions reached under the determinations made in the Actuarial Valuation are the most important indicators of the long term actuarial soundness of the system. The soundness is measured by the relationship of the normal cost to the total contributions available, by the length of the Funding Period—a shorter period being more favorable, by the current balance in the Reserve for Long Term Benefit Goals and the net amount remaining to be allocated in the future.

The current SDRS benefits combined with the present financing and the relatively small amount of Frozen Unfunded Actuarial Accrued Liability result in a very well funded System that is providing benefits essentially equal to the resources available. Investment performance for the two years ended June 30, 2002 has eliminated the positive balance in the Reserve for Funding of Long Term Benefit Goals and resulted in a net balance of (\$29M) as of June 30, 2002.



SDRS is a consolidated, multiple-employer, cost-sharing retirement system that does not attempt to determine separate or unique funding requirements for entities within SDRS. However, the 2002 Actuarial Valuation confirmed that the two major employee groups within SDRS with different funding and benefit provisions (Class A and Class B) are self-supporting (i.e., the member and employer contributions are funding the benefits provided under these classifications).

The combination of actuarial assumptions and methods used in the Actuarial Valuation, the actual experience of the system, and the actuarial measures utilized all indicate a continuing sound system.

Net Actuarial Value of Assets as of June 30, 2001	\$4,167,985,761
Contributions and Disbursements	
Contributions	124,856,203
Benefit Payments and Refunds	(188,395,666)
Administrative Expenses	<u>(2,440,353)</u>
Total	\$(65,979,816)
Expected Investment Return	\$330,799,668
SDRS Liability Gain	\$(7,413,217)
Projected Net Actuarial Value of Assets as of June 30, 2002	\$4,425,392,396
Present Value of All Benefits for Improvements Enacted into Law as of June 30, 2002 Funded From Reserve	<u>0</u>
Preliminary Actuarial Value of Assets as of June 30, 2002	\$4,425,392,396
Market Value of Assets as of June 30, 2002	\$4,624,899,872
Constraining Values	
80% of Market Value of Assets	\$3,699,919,898
120% of Market Value of Assets	\$5,549,879,846
Actuarial Value of Assets as of June 30, 2002	\$4,425,392,396

Development of the SDRS Actuarial Value of Assets

As of June 30, 2002

ACTUARIAL VALUATION (CONTINUED)

Benefit and Funding Objectives and Historical Summary

The benefit objective of SDRS is to meet the needs of short and long term members by providing:

- Lifetime Income replacement of 70 percent to 85 percent of final pay for career employees (including Social Security)
- Inflation protection before and after retirement
- Early retirement opportunities
- Vesting after three years of credited service
- Disability and survivor income protection
- A portable retirement option that allows members to elect a refund of both member and employer contributions, plus interest
- Risk-free market interest rate credited on member and employer contributions

The Funded Ratio and Funding Period are the primary measures of SDRS' soundness.

The SDRS objective is to maintain a Funding Ratio in excess of 95 percent and a Funding Period of 30 years or less.

The schedule below presents the historical Actuarial Accrued Liability Funded Ratio and the Funding Period.

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Accrued Liability Funded Ratio	Funding Period
1986	\$ 875,821,002	\$ 742,055,584	84.7%	37 years
1988	1,078,235,569	1,050,836,113	97.5	6 years
1990	1,404,616,511	1,275,091,534	90.8	46 years
1992	1,714,482,245	1,605,481,514	93.6	16 years
1994	2,108,309,129	1,945,856,251	92.3	38 years
1996	2,539,008,893	2,390,236,436	94.1	30 years
1997	2,956,497,152	2,813,304,611	95.2	23 years
1998	3,471,898,003	3,337,293,439	96.1	22 years
1999	3,997,927,795	3,875,171,467	96.9	21 years
2000	4,611,913,087	4,427,102,390	96.0	20 years
2001	4,688,408,562	4,521,403,578	96.4	20 years
2002	4,576,948,810	4,425,392,396	96.7	20 years



The schedule below compares total Actuarial Accrued Liabilities to smoothed assets at actuarial value and unfunded actuarial accrued liabilities to payroll over time.

Summary of Accrued and Unfunded Accrued Liabilities

The smoothed assets to total liabilities ratios show the growth of assets compared to the growth of liabilities. The unfunded liabilities to covered payroll ratios are a measure of the ability of SDRS to meet its long term obligations.

Level or increasing values for the first ratio and level or declining values for the second ratio are an indication of stable or improving funding.

Fiscal Year	Total Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Assets as a % of Total Actuarial Liability	Unfunded Actuarial Accrued Liability	Total Covered Payroll (000,000)	Unfunded Liability as a % of Payroll
1985 – 86	\$ 875,821,002	\$ 742,055,584	84.7%	\$133,765,418	\$481.5	27.8%
1987 – 88	1,078,235,569	1,050,836,113	97.5	27,399,456	530.0	5.2
1989 – 90	1,404,616,511	1,275,091,534	90.8	129,524,977	582.7	22.2
1991 – 92	1,714,482,245	1,605,481,514	93.6	109,000,731	694.3	15.7
1993 – 94	2,108,309,129	1,945,856,251	92.3	162,452,878	788.6	20.6
1995 – 96	2,539,008,893	2,390,236,436	94.1	148,772,457	820.1	18.1
1997	2,956,497,152	2,813,304,611	95.2	143,192,541	835.1	17.1
1998	3,471,898,003	3,337,293,439	96.1	134,604,564	875.9	15.4
1999	3,997,927,795	3,875,171,467	96.9	122,756,328	902.5	13.6
2000	4,611,913,087	4,427,102,390	96.0	184,810,697	944.6	19.6
2001	4,688,408,562	4,521,403,578	96.4	167,004,984	1,029.7	16.2
2002	4,576,948,810	4,425,392,396	96.7	151,556,414	1,080.1	14.0

The solvency test is a comparison of the adequacy of SDRS smoothed assets to the AAL for: 1) active member contributions; 2) benefits for present benefit recipients; and 3) employer-financed active member benefits.

Solvency Test

Fiscal Year	Actuarial Accrued Liability for			Actuarial Value of Assets	Portion of Actuarial Accrued Liability Covered by Actuarial Value of Assets for		
	(1) Member Contributions	(2) Current Retirees and Beneficiaries and Terminated Employees	(3) Current Employees: Employer Financed		(1)	(2)	(3) ¹
1985 – 86	\$189,168,241	\$ 278,555,327	\$408,097,434	\$ 742,055,584	100.0%	100.0%	67.2%
1987 – 88	231,163,590	397,780,471	449,291,508	1,050,836,113	100.0	100.0	93.9
1989 – 90	283,584,495	524,168,024	596,863,992	1,275,091,534	100.0	100.0	78.3
1991 – 92	350,130,362	685,091,034	679,260,849	1,605,481,514	100.0	100.0	84.0
1993 – 94	421,403,799	834,896,391	852,008,939	1,945,856,251	100.0	100.0	80.9
1995 – 96	484,228,278	1,017,938,827	1,036,841,788	2,390,236,436	100.0	100.0	85.7
1997	517,164,580	1,158,342,002	1,280,990,570	2,813,304,611	100.0	100.0	88.8
1998	553,386,759	1,375,461,393	1,543,049,851	3,337,293,439	100.0	100.0	91.3
1999	560,276,444	1,595,941,304	1,841,710,047	3,875,171,467	100.0	100.0	93.3
2000	618,625,484	1,889,571,734	2,103,715,869	4,427,102,390	100.0	100.0	91.2
2001	624,310,539	2,045,346,869	2,018,751,154	4,521,403,578	100.0	100.0	91.7
2002	691,820,949	2,236,330,911	1,648,796,950	4,425,392,396	100.0	100.0	90.8

¹ Indicates the percentage of liabilities in this category currently funded, after fully funding categories (1) and (2).

ACTUARIAL VALUATION (CONTINUED)

Schedule of Active Member Valuation Data

The schedule below presents information about the system's active membership used in the current and previous Actuarial Valuations.

Valuation Date	# of Active Members	Covered Payroll (000,000)	Average Annual Pay	% Increase In Average Pay
1986	27,367	\$ 481.5	\$17,594	N/A
1987	27,906	500.2	17,924	1.9%
1988	28,411	530.0	18,655	4.1
1989	28,749	554.9	19,302	3.5
1990	29,378	582.7	19,835	2.8
1991	30,524	616.8	20,207	1.9
1992	31,717	694.3	21,890	8.3
1993	32,512	731.1	22,487	2.7
1994	33,301	788.6	23,681	5.3
1995	33,390	811.1	24,292	2.6
1996	32,624	820.1	25,139	3.5
1997	32,397	835.1	25,776	2.5
1998	32,903	875.9	26,620	3.3
1999	33,664	902.5	26,810	0.7
2000	34,180	944.6	27,637	3.1
2001	34,887	1,029.7	29,515	6.8
2002	35,130	1,080.1	30,745	4.2

Schedule of Retirees and Beneficiaries Added To and Removed From Benefit Payroll

The schedule below identifies retirees and beneficiary information used in the current and previous Actuarial Valuations.

Valuation Date	Beginning of Year Balance	Number Added To Payroll	Number Removed From Payroll	End of Year Balance	Annual Pension Benefit Amount	Average Annual Benefit	% Increase in Average Benefit
1987 – 88 ¹				9,404	\$ 32,817,633	\$3,490	N/A
1989 – 90	9,404	1,546	648	10,302	44,891,914	4,358	24.9%
1991 – 92	10,302	1,897	975	11,224	56,770,199	5,058	16.1
1993 – 94	11,224	1,958	1,203	11,979	69,456,850	5,798	14.6
1995 – 96	11,979	2,618	1,579	13,018	85,445,388	6,564	13.2
1997	13,018	1,079	435	13,662	98,531,146	7,212	9.9
1998	13,662	864	460	14,066	111,082,677	7,897	9.5
1999	14,066	856	550	14,372	127,027,784	8,839	11.9
2000	14,372	1,069	513	14,928	147,900,089	9,908	12.1
2001	14,928	998	536	15,390	161,127,803	10,470	5.7
2002	15,390	1,051	548	15,893	175,339,813	11,033	5.4

¹ Only biennial data available. Data prior to fiscal year 1988 not available.



Comparison of Actuarial Valuation Results

	2001 Valuation	2002 Valuation	Change
Active Members			
Number	34,887	35,130	0.7%
Average Age	44.2	44.4	0.5
Average Credited Service	10.5	10.6	1.0
Annual Compensation	\$1,029,673,056	\$1,080,060,341	4.9
Average Annual Compensation	\$29,515	\$30,745	4.2
Benefit Recipients			
RETIRED MEMBERS			
Number	12,657	13,053	3.1
Average Age	72.2	72.3	0.0
Total Annualized Benefits	\$143,280,183	\$155,922,246	8.8
Average Annualized Benefits	\$11,320	\$11,945	5.5
BENEFICIARIES			
Number	2,334	2,434	4.3
Total Annualized Benefits	\$14,002,644	\$15,348,949	9.6
Average Annualized Benefits	\$5,999	6,306	5.1
DISABILITIES			
Number	399	406	1.8
Total Annualized Benefits	\$3,844,976	\$4,068,618	5.8
Average Annualized Benefits	\$9,637	\$10,021	4.0
TOTAL BENEFIT RECIPIENTS			
Number	15,390	15,893	3.3
Total Annualized Benefits	\$161,127,803	\$175,339,813	8.8
Average Annualized Benefits	\$10,470	\$11,033	5.4
Terminated Members			
Number — Vested	5,253	5,714	8.8
Number — Non-Vested	5,063	5,748	13.5
Valuation Results			
Normal Cost (without expenses)	9.218%	11.205%	21.6
(with expenses)	9.491%	11.528%	21.5
Frozen Unfunded Actuarial			
Accrued Liability	\$167,004,984	\$151,556,414	(9.3)
Market Value of Assets	\$4,939,705,889	\$4,624,899,872	(6.4)
Actuarial Value of Assets	\$4,521,403,578	\$4,425,392,396	(2.1)
Actuarial Accrued Liability (AAL)	\$4,688,408,562	\$4,576,948,810	(2.4)
Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)			
	96.4%	96.7%	0.3
Projected Years to Fund Level Funding Requirements			
	20 Years	20 Years	N/A

SUMMARY OF BENEFIT CHANGES AND 2002 ACTUARIAL VALUATION RESULTS

Benefit Changes

During the 2002 South Dakota Legislative session, benefit changes were made to SDRS that have been reflected in the 2002 Actuarial Valuation. The following is a summary of the benefit changes effective July 1, 2002.

Plan Provision	Prior Benefit	Benefit Change
Class A Benefit Formula Multipliers for Credited Service Earned after July 1, 2002	<p>Old multipliers were:</p> <p>Class A: <u>Standard Formula</u> 1.625 percent for Credited Service prior to July 1, 2002; 1.3 percent for other Credited Service</p> <p><u>Alternate Formula</u> 2.325 percent for Credited Service prior to July 1, 2002; 2 percent for other Credited Service (less 80 percent of Primary Social Security Benefit)</p>	<p>New multipliers for Credited Service earned after July 1, 2002 only:</p> <p>Class A: <u>Standard Formula</u> 1.55 percent</p> <p><u>Alternate Formula</u> 2.25 percent</p>
Additional Contributions	Class A Members and their employers contribute 5 percent of earnings.	<p>Class A Members and their employers contribute 6 percent of earnings.¹</p> <p>For Class A members only, employers contribute 6.2 percent of earnings in excess of the Social Security wage base. Such contributions will not be treated as employer contributions.</p>
Purchase of Prior Service Credit	The Purchase calculation is based upon the member's contribution rate at date of purchase.	<p>For service performed prior to July 1, 2002, the purchase calculation is based on member's contribution rate in effect on July 1, 2001. For other services, the purchase calculation is based on the member's contribution rate at date of purchase.</p> <p>Trustee-to-trustee transfers of pre-tax employee contributions from 403(b) or 457 plans may be used to purchase service or redeposit previously refunded contributions.</p>

¹ Class A contribution increase provisions were made during the 2001 South Dakota Legislative session.

PLAN SUMMARY



South Dakota Retirement System (SDRS).

SDRS was established effective July 1, 1974. The Supreme and Circuit Court Judicial Retirement System, District County Court and Municipal Court Judges' Retirement Program, South Dakota Teachers' Retirement System, South Dakota Municipal Retirement System, South Dakota Law Enforcement Retirement System, South Dakota Public Employees' Retirement System and South Dakota Board of Regents Retirement System (effective July 1, 1975) were consolidated into SDRS.

Effective Date

SDRS is a governmental retirement system created by Act of the State of South Dakota. The Retirement System is administered by the Board of Trustees consisting of two state government Members; two teacher Members; a participating municipality Member; a participating county Member; a currently contributing Class B Member other than a justice, judge or magistrate judge; a justice, judge, or magistrate judge; a participating classified employee Member; one head of a principal department or one head of a bureau under the office of executive management; an individual appointed by the Governor; a county commissioner of a participating county; a school district board member; an elected municipal official of a participating municipality; a faculty or administrative Member employed by the Board of Regents; a retiree; and an investment council representative, ex-officio non-voting.

Type of System

The Board of Trustees appoints an Administrator as the System's chief executive officer.

Employers include the State of South Dakota and its departments, bureaus, boards, or commissions, and any of its governmental or political subdivisions or any public corporation of the State of South Dakota that elects to become a participating unit.

Employers Included

All of the following permanent full-time employees are included as Members in the System:

Members

- All state employees
- All teachers
- All justices, judges, and magistrate judges
- All law enforcement employees of counties and municipalities that are participating with their Class B employees
- All general employees of counties and municipalities that are participating with their Class A employees
- All classified employees of school districts that are participating with their classified employees
- All employees of the Board of Regents
- All state law enforcement officers

PLAN SUMMARY (CONTINUED)

Employees of the Department of Labor hired before July 1, 1980 who elected to remain covered under a former retirement plan, employees of the state cement plant, and members of the governing body of any participating county, municipality, or other public subdivision are excluded from SDRS membership.

Membership is immediate upon hire and is subdivided into two classes as follow:

- Class A Member: All Members other than Class B Members.
- Class B Member: Members who are justices, judges and magistrate judges (*Class B Judicial Members*) and state law enforcement officers, municipal police, municipal firefighters, penitentiary correctional staff, county sheriffs, deputy county sheriffs, conservation officers, parole agents, air rescue firefighters, campus security officers, court services officers, certain park rangers and certain jailers (*Class B Public Safety Members*).

Class A Members constitute 94 percent of SDRS membership.

Service Considered

Credited Service is the period of employment for an SDRS Member which is considered for eligibility for benefits and in determining the amount of benefits. It includes the following:

- Years and fractional years for which Member Contributions were made.
- The period of non-contributory service credited prior to July 1, 1974 under the prior retirement systems consolidated under this System.
- For employees of the Board of Regents, the period of service between April 1, 1964 and June 30, 1975 for which purchase was made to Bankers Life and the period of service prior to April 1, 1964, up to a maximum of 20 years, for which purchase was made.
- Periods of non-contributory service credited due to specific legislation since 1974.

Credited Service may be purchased for public employment for which Members are not entitled to retirement benefits, at a cost of 75 percent of twice the Member Contribution rate applied to current Compensation. Credited Service performed prior to July 1, 2002 may be purchased at a cost of 75 percent of twice the Member Contribution rate in effect on July 1, 2001 applied to current Compensation. Credited Service is purchased with an after-tax payment unless the Member's Employer elects to permit purchase on a pre-tax basis under Section 414(h) of the Internal Revenue Code.

Compensation

Compensation is W-2 wages, plus any amount used to purchase a Member's individual retirement plan, plus a Member's Contribution to SDRS made on



a before-tax basis, plus any amount contributed to a Section 125 cafeteria plan, paid during the period of Credited Service. Compensation for Members hired after June 30, 1996 is limited as prescribed in Section 401(a)(17) of the Internal Revenue Code.

Final Average Compensation is the highest average annual Compensation earned by a Member during 12 consecutive calendar quarters of the last 40 such quarters during periods of Credited Service. The Final Average Compensation is limited by statutory provisions that prevent extraordinary increases in Compensation immediately before retirement.

Final Average Compensation

Employer Contributions equal those amounts contributed by Members except for the Additional Contributions noted below.

Employer Contributions

Class A Members: 6 percent of Compensation
Class B Public Safety Members: 8 percent of Compensation
Class B Judicial Members: 9 percent of Compensation

Member Contributions

Member Contributions are made on a pre-tax basis as permitted under Section 414(h) of the Internal Revenue Code.

Accumulated Contributions are equal to Member and Employer Contributions (or 75 percent of Employer contributions for Members with less than three years of Credited Service) credited with interest on a monthly basis at a rate annually established by the Board of Trustees, that is no greater than 90 percent of the average 91-day U.S. Treasury Bill rate for the immediately preceding calendar year. Such rate shall not be less than 5 percent nor more than 10 percent.

Accumulated Contributions

Effective July 1, 2002, employers contribute 6.2 percent of Class A Member's calendar year compensation in excess of the maximum taxable amount for Social Security for the calendar year. These additional contributions are not included in Accumulated Contributions.

Additional Contributions

Eighty percent of the benefits provided as "primary insurance amount *or* primary Social Security" under the Federal Social Security Act.

Other Public Benefits

The annual increase in the amount of the SDRS benefits payable on each July 1st equal to a 3.1 percent increase compounded annually, prorated if the benefit has not been paid for at least 12 months.

Cost-of-Living Adjustment (COLA)

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

PLAN SUMMARY (CONTINUED)

Normal Retirement Date

The Normal Retirement Date is age 65 with three years of Credited Service for Class A and Class B Judicial Members of the System. Normal Retirement Date is age 55 with three years of Credited Service for Class B Public Safety Members.

Normal Retirement Benefit

Members are entitled to retire with a benefit commencing the first of the month in which they reach Normal Retirement Date and payable for life, with an automatic 60 percent surviving spouse's benefit paid for the spouse's lifetime.

Class A Benefit

The Class A benefit is the larger of that provided by the following Standard Formula or Alternate Formula:

Standard Formula

Enhanced Benefit

1.625 percent times Final Average Compensation times years of Credited Service as a Class A Member before July 1, 2002, **plus**

Base Benefit

1.55 percent times Final Average Compensation times years of Credited Service as a Class A Member after July 1, 2002.

OR

Alternate Formula

Enhanced Benefit

2.325 percent times Final Average Compensation times years of Credited Service as a Class A Member before July 1, 2002, **plus**

Base Benefit

2.25 percent times Final Average Compensation times years of Credited Service as a Class A Member after July 1, 2002 **less**

80 percent of Primary Social Security benefit.

Class B Public Safety Benefit

The Class B benefit for Class B Public Safety Members is:

Enhanced Benefit

2.325 percent times Final Average Compensation times years of Credited Service as a Class B Public Safety Member before July 1, 2002, **plus**

Base Benefit

2.0 percent times Final Average Compensation times years of Credited Service as a Class B Public Safety Member after July 1, 2002.



Class B Judicial Benefit

The Class B benefit for Class B Judicial Members is determined by adding the Enhanced and Base Benefit for both the first 15 years of Credited Service and years of Credited Service in excess of 15, as follows:

First 15 years of Credited Service

Enhanced Benefit

3.658 percent times Final Average Compensation times the first 15 years of Credited Service as a Class B Judicial Member before July 1, 2002, **plus**

Base Benefit

3.333 percent times Final Average Compensation times all other such years of Credited Service as a Class B Judicial Member after July 1, 2002.

PLUS

Years of Credited Service in Excess of 15

Enhanced Benefit

2.325 percent times Final Average Compensation times years of Credited Service as a Class B Judicial Member before July 1, 2002, in excess of 15 years, **plus**

Base Benefit

2.0 percent times Final Average Compensation times all other such years of Credited Service as a Class B Judicial Member after July 1, 2002.

All of the above benefits are paid monthly.

SDRS benefits are limited to the maximum benefit under Section 415 of the Internal Revenue Code.

The monthly benefit payable upon retirement after Normal Retirement Date is based on Credited Service and Final Average Compensation to date of actual retirement.

The Special Early Retirement Date for Class A Members is the date at which a Member's age plus Credited Service total 85, but not less than age 55. The Special Early Retirement Date for Class B Judicial Members is the date at which age plus Credited Service total 80, but not less than age 55. The Special Early Retirement Date for Class B Public Safety Members is the date at which age plus Credited Service total 75, but not less than age 45.

Members are entitled to retire at Special Early Retirement Date with a benefit equal to the Normal Retirement Benefit based on Credited Service and Final Average Compensation to date of retirement, with no reduction for early payment.

Delayed Retirement Benefit

Special Early Retirement Date (Rule of 85, Rule of 80 and Rule of 75)

PLAN SUMMARY (CONTINUED)

Early Retirement Benefit

Any Member with at least three years of Credited Service can retire in the 10 years preceding Normal Retirement Date. The Member will be entitled to receive the Normal Retirement Benefit based on Credited Service and Final Average Compensation to date of retirement, reduced by 1/4 of 1 percent for each full month by which commencement of payments precedes the earlier of the Normal Retirement Date or the Special Early Retirement Date. Benefits commence on the first of the month following retirement (or the date chosen for payment to commence) and 30 days after the application for retirement benefits has been received by SDRS.

Vested Benefit and Portable Retirement Option

A terminated Member with at least three years of Credited Service will be entitled to receive the Normal or Early Retirement Benefit payable at either Normal or Early Retirement based on the Member's Credited Service at the time of termination of employment and increased by the Cost-of-Living Adjustment from the date of termination to the date benefits commence.

In lieu of any monthly lifetime retirement benefits under the System, a terminating Member may receive a lump sum of his Accumulated Contributions under the Portable Retirement Option. Members who are rehired may redeposit their Accumulated Contributions plus interest within two years of rehire to reinstate their Credited Service.

Disability Benefit

A contributing Member, who becomes disabled with at least three years of Credited Service, or was disabled by accidental means while performing the usual duties of his job, is entitled to an immediate monthly Disability Benefit.

The Disability Benefit is equal to:

- For the first 36 months, 50 percent of the Highest Annual Compensation earned in any one of the last three years of Credited Service, increased 10 percent for each eligible child to a maximum of four children. The maximum benefit payable is 100 percent of such Compensation (increased by the Cost-of-Living Adjustment) reduced by earned income.
- Starting with the 37th month,
—if the Member is receiving disability benefits from Social Security, the greater of:
 - 50 percent of the Highest Annual Compensation plus 10 percent for each eligible child to a maximum of 90 percent less the amount of primary Social Security.
 - 20 percent of Highest Annual Compensation increased by the COLA
 - The unreduced accrued retirement benefit

- if the Member is not receiving disability benefits from Social Security, the greater of:
- 20 percent of Highest Annual Compensation increased by the COLA
 - The unreduced accrued retirement benefit

The maximum benefit is 100 percent of Highest Annual Compensation (increased by the Cost-of-Living Adjustment) reduced by earned income and Primary Social Security.

The above benefits are payable monthly.

At age 65 (or when there are no eligible children, if later), but not before five years of disability, the benefit payable is converted to the Normal Retirement Benefit based on Compensation increased by the Cost-of-Living Adjustment for the period between the date of disability and Normal Retirement Date (Projected Compensation), and Credited Service as if employment had continued uninterrupted to Normal Retirement Date (Projected Credited Service).

Pre-Normal Retirement Age and Post-Disability Deaths

If an active Member with at least one year of Credited Service, or a Member receiving a disability benefit commencing after July 1, 1974 dies, the surviving spouse having the care of eligible dependent children will receive an immediate benefit equal to 40 percent of the Highest Annual Compensation earned in any one of the last three years of Credited Service, increased 10 percent for each child to a maximum of six children. If the surviving eligible dependent children are under the care of a guardian, the benefit payable will be 20 percent of the Highest Annual Compensation earned by the Member in any one of the last three years of Credited Service for each child (to a maximum of five children).

The above survivor benefits are all payable monthly and reduced by 75 percent of primary Social Security without improvements.

If no benefit is payable as defined above or payment has ceased, and the Member's Accumulated Contributions have not been withdrawn, the spouse is entitled to receive at age 65 a benefit equal to 60 percent of the Normal Retirement Benefit that would have been payable to the deceased Member at Normal Retirement Date based on Projected Credited Service and Projected Compensation, and further increased by the Cost-of-Living Adjustment for any time between Normal Retirement Date and payment commencement date.

Survivor Benefits

PLAN SUMMARY (CONTINUED)

Post-Normal Retirement Age and Post-Retirement Deaths

Upon the death of a retiree or any Member at or beyond Normal Retirement Age, the surviving spouse is entitled to receive 60 percent of the monthly retirement benefit the Member was receiving or was eligible to receive.

Accumulated Contributions as Minimum Benefits

If the aggregate benefit payments received by a Member and the Member's beneficiary (excluding benefits received under the Optional Spouse Coverage benefit provisions) do not equal the sum of the Accumulated Contributions then the difference will be paid to the Member's designated beneficiary, children or estate in a lump sum.

Optional Spouse Coverage

A Member may elect to provide an additional benefit payable to the surviving spouse within 365 days after becoming a Member, within 90 days following attainment of age 35, or within 90 days after the first anniversary of marriage. This optional coverage may continue until the Member's spouse attains age 65, the death or disability of the Member, the death of the Member's spouse, termination of the Member's marriage to his spouse, or the Member's termination of employment. The elected additional monthly benefit is equal to 40 percent of the Highest Annual Compensation earned in any one of the last three years of Credited Service multiplied by the Cost-of-Living Adjustment for each full year between the date of death or disability of the Member to payment commencement. Such benefit is paid from the time there are no eligible dependent children until the spouse dies or attains age 65. The cost of this protection is paid by the Member through an additional contribution of 8/10 of 1 percent of Compensation, which amount will not be matched by the Employer and is not refundable.

Optional Forms of Retirement Payments

The monthly retirement benefits may be modified to an optional form of payment which is the actuarial equivalent of the benefit due under the System. A Social Security level income payment option is available for Members who retire before age 62.

Administrative Expenses

Administrative expenses are paid from the System's expense fund in an amount not to exceed 3 percent of the annual Member and Employer Contributions received by the System.

Retired Members

Retired Members' benefits have been increased to reflect the benefit formula currently in effect for active Members.

This plan summary is effective July 1, 2002

INVESTMENT SUMMARY



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Time-Weighted Annualized Rates of Return

Asset Allocation

INVESTMENT ANALYSIS

The Investment Council

The SDRS Trust Fund is invested under the direction of the South Dakota Investment Council. The council is composed of five members at large with financial backgrounds, the state treasurer, the school and public lands commissioner and an appointee from SDRS. The council is a policy making board and attends to matters such as asset allocation, portfolio strategy and the selection or dismissal of outside investment managers.

The data in the investment section of this report was prepared by the South Dakota Investment Council in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS™). The South Dakota Retirement System in conjunction with the South Dakota Investment Council and external auditors, KPMG LLP, prepared the investment section of this report.

Investment Objectives and Policy

The South Dakota Investment Council has five objectives for managing the assets of the South Dakota Retirement System. The goal is to assure the continued financial health of SDRS.

Meeting the first two objectives as follows will assure that this goal is met.

- Achieve the actuarial required rate of return over the long term;
- Achieve a return in excess of the actuarial rate of return over the long term;

While these first two objectives were not met this current fiscal year, they were exceeded over the last ten years. By meeting or exceeding the first objective, SDRS will be able to pay current and projected benefits. By meeting or exceeding the second objective over the long term, SDRS will be able to improve benefits and ultimately reach the system's long term goals for benefit levels.

The remaining three objectives attempt to measure performance on a relative basis. The final three objectives are important in judging the Investment Council's delivery of competitive returns as compared to established benchmarks and to large pension plans making up a peer universe.

- Achieve favorable total fund performance relative to a capital market benchmark reflective of the Investment Council's normal asset allocation policy;

The third objective is important in judging the Investment Council's delivery of a competitive rate of return. This objective means that the performance of all actively managed assets are to be measured against the indexed returns that would be earned if the assets were invested in the Investment Council's selected capital market benchmarks.



- Achieve favorable specific asset category performance relative to the identified capital market benchmark;

The Investment Council strives to outperform the passive opportunity that exists in each of the asset categories in which SDRS assets are involved.

- Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds.

The last objective evaluates the Investment Council performance relative to other large professionally managed plans.

The key investment policy decision made by the Investment Council is asset allocation. The policy reflects their best judgement of the risk versus return trade-off that all investors must make. The Investment Council makes this judgement based on an assessment of long term future expected rates of return and in part on historical returns of stocks, bonds, cash and other capital market areas. Certain behavioral characteristics of these asset categories, such as standard deviation (measure of risk) and correlation (the degree that asset prices tend to move in the same or different direction) play an important role in making the asset allocation decision.

State law requires that the South Dakota Retirement System Trust Fund be invested according to the “prudent man” standard. South Dakota Codified Law defines the “prudent man” standard as follows:

Any investment under the provisions of SD Codified Law Sections 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of the degree of judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercised in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the South Dakota Retirement System is not subject to sudden, substantial and unexpected withdrawals. As a result, it is not necessary to have a high percentage of assets in short term investments unless this is deemed to be the best investment strategy. This allows the Trust Fund to be as fully invested in stocks, bonds and other alternatives as investment strategy dictates.

Prudent Man Standard

INVESTMENT SUMMARY (CONTINUED)

Performance

SDRS investment performance for fiscal year (FY) 2002 was negative for the second consecutive year. The total fund return for FY 2002 was -4.9 percent. The Investment Council's benchmark return for FY 2002 was -5.8 percent. This capital marker benchmark was 40 percent domestic equity, 16 percent international equity, 23 percent fixed income, 9 percent arbitrage, 8 percent real estate, 3 percent private equity and 1 percent cash. The 10-year annualized return was 10.6 percent versus the benchmark return of 9.2 percent.

The internal equity fund earned -18.3 percent in FY 2002 versus a benchmark return of -17.9 percent. The 10-year return for the internal equity fund was 11.8 percent versus a benchmark return of 11.4 percent.

SDRS' bond fund returned 5.9 percent in FY 2002 versus a benchmark return of 7.0 percent. The 10-year return for the internal bond fund was 8.0 percent versus a benchmark return of 7.4 percent.

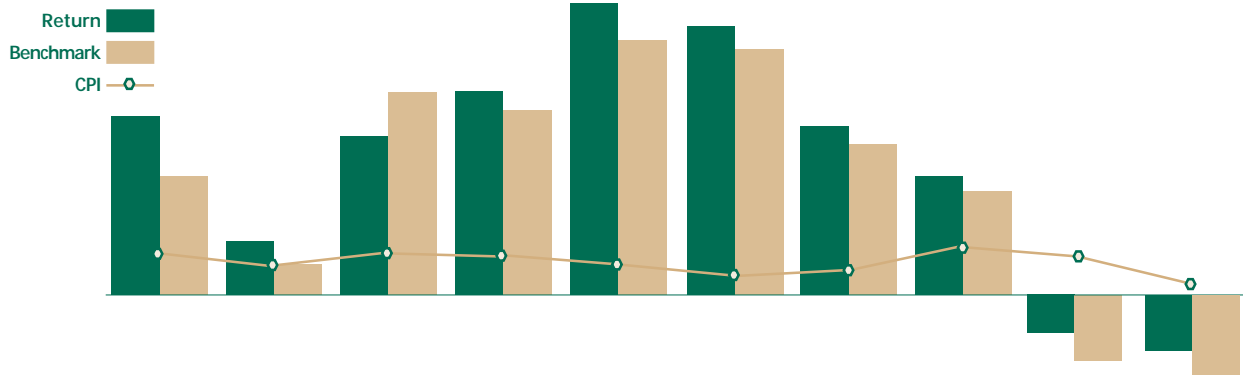
Returns earned by other portfolios and outside managers in FY 2002 (included in total fund returns) were: 2.1 percent Merger Arbitrage; 3.8 percent Convertible Arbitrage; 4.2 percent Internal International; 2.1 percent Acadian International; -5.6 percent Emerging Markets; 11.6 percent DFA; 1.1 percent Nicholas Applegate. Blackstone, Cypress, Apollo, AIG, Capital International Emerging Markets Private Equity, Doughty Hanson, KKR, Crossroads, Silver Lake and DLJ Merchant Bankers do not have time-weighted rates of return because of the nature of their investments.

Real Rates of Return

The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

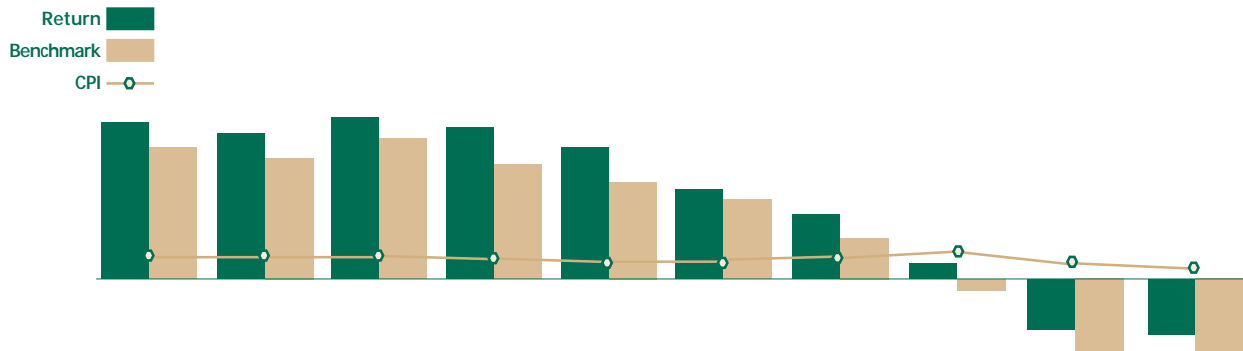
During FY 2002 inflation averaged 1.1 percent while SDRS' total return was -4.9 percent. This shortfall of 6.0 percent was the second since 1990. Over the last 10 years, inflation has averaged 2.5 percent and total returns 10.6 percent, creating a real return of 8.1 percent.

Investment Performance Compared to Capital Market Benchmark and Inflation



Investment	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02
Return	15.2%	4.8%	14.1%	16.7%	21.3%	19.3%	14.6%	10.8%	-2.9%	-4.9%
Benchmark	11.8%	2.4%	16.9%	15.5%	18.9%	18.4%	13.3%	9.7%	-5.1%	-5.8%
CPI	3.0%	2.5%	3.0%	2.8%	2.5%	1.6%	2.0%	3.7%	3.2%	1.1%

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



Investment	FY 93-02	FY 94-02	FY 95-02	FY 96-02	FY 97-02	FY 98-02	FY 99-02	FY 00-02	FY 01-02	FY 02
Return	10.6%	10.1%	10.7%	10.3%	9.2%	6.9%	4.1%	0.8%	-3.9%	-4.9%
Benchmark	9.2%	8.9%	9.8%	8.8%	7.7%	5.6%	2.6%	-0.7%	-5.5%	-5.8%
CPI	2.5%	2.5%	2.5%	2.4%	2.3%	2.3%	2.5%	2.7%	2.2%	1.1%

INVESTMENT SUMMARY (CONTINUED)

Investment Managers

As of June 30, 2002, the South Dakota Investment Office managed 86 percent of SDRS' investments. The remaining 14 percent was invested by outside managers selected and monitored by the South Dakota Investment Council. The following are the outside managers that were selected by the investment council. Capital International (\$48.1 million), Acadian (\$53.3 million), Nicholas Applegate (\$25.1 million), and Dimensional Fund Advisors (\$22.6 million) invest in international equities. Blackstone (\$203.4 million), Doughty Hanson (\$10.2 million) and Apollo (\$79.8 million) invest in distressed real estate. DLJ Merchant Bankers (\$14.1 million), Capital International (\$6.4 million), AIG (\$15.5 million), KKR (\$6.4 million), Crossroads (\$66.4 million), Silver Lake (\$16.4 million) and Cypress (\$45.2 million) invest in private equity.

Schedule of Investment Management Expenses and Commissions for the Year Ended June 30, 2002

Schedule of Investment Management Expenses

Investment Managers	Management Expense
South Dakota Investment Council	\$ 3,108,362
Dimensional Fund Advisors, Inc.	59,547
Acadian International	56,387
Blackstone Real Estate Partners	2,177,610
Apollo Real Estate Investments	1,025,676
Nicholas Applegate	449,216
DLJ Merchant Bankers	164,420
KKR	675,000
Crossroads	838,239
Silver Lake	650,293
Doughty Hanson	1,034,503
MW Post	127,588
Cypress Merchant Banking Partners L.P.	996,175
Total Investment Manager Expenses	<u>\$11,363,016</u>

Summary of Broker Commissions¹

Investment Type	Commissions
Fixed Income	\$ 643,807
Equity	3,082,748
Internal Equity	1,012,230

¹ For an itemized list of commissions by broker, contact SDRS.



Summary of Investment Portfolios

As of June 30, 2002

	Market Value	Future Positions	Exposure With Futures	Percentage with Futures Overlay On Cash Markets
Domestic Fixed Income				
Internal Domestic Fixed Income	\$1,159,310,801	\$(9,625,910)	\$1,149,684,891	25.0%
Domestic Equity				
Internal Domestic Equity	\$1,458,049,134	\$428,054,602	\$1,886,103,736	41.0
International Equity				
Internal International Equity	\$684,985,207			
Acadian Management	53,336,738			
Dimensional Fund Advisors	22,582,552			
Capital International	48,143,680			
Nicholas Applegate Securities	25,062,901			
Total International Equity	\$834,111,078		\$834,111,078	18.1
Arbitrage Equity				
Internal Merger Arbitrage	\$82,727,241			
Internal Convertible Arbitrage	136,426,082			
Total Arbitrage Equity	\$219,153,323		\$219,153,323	4.7
Real Estate				
Blackstone Partnerships	\$203,372,043			
Apollo	79,810,201			
Doughty Hanson	10,210,154			
Total Real Estate	\$293,392,398		\$293,392,398	6.4
Private Equities				
KKR	\$ 6,394,412			
Crossroads	66,438,404			
Silverlake	16,365,456			
Cypress Associates, L.P.	45,180,271			
Capital International	6,402,696			
AIG	15,504,088			
DLJ Overseas Partners II	14,057,562			
Total Private Equities	\$170,342,889		\$170,342,889	3.7
Cash and Cash Equivalents				
Internal Shift	\$470,903,988	\$(418,428,692)	\$52,475,296	1.1
Total	\$4,605,263,611	\$0	\$4,605,263,611	100.0%

INVESTMENT SUMMARY (CONTINUED)

Equity Profile

The South Dakota Retirement System Trust Fund's internally managed equity portfolio characteristics for the past 10 years are presented below. The S&P 500 characteristics are presented for comparative purposes for the years ended 1993 – 94. The Russell 1000 characteristics are presented for the years ended 1995 – 02. Beta is 1.0 for the S&P 500 and Russell 1000 by definition.

South Dakota

Investment Office	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Price/Earnings Ratio	20.2	15.6	13.4	15.7	22.1	25	29.6	27.0	26.0	26.8
Dividend Yield	2.9%	2.7%	2.7%	2.3%	1.6%	1.4%	1.4%	1.2%	1.4%	1.8%
Price/Book Value Ratio	2.3	2.3	3.2	3.9	5.2	4.8	7.5	10.4	5.4	4.2
Beta	0.94	0.97	1.02	1.00	1.02	0.99	1.02	1.01	1.01	0.99

S&P 500 / Russell 1000

Price/Earnings Ratio	23.5	19.5	15.8	19.3	21.7	25.9	33.6	30.3	25.6	26.2
Dividend Yield	2.8%	2.9%	2.5%	2.2%	1.7%	1.4%	1.2%	1.1%	1.3%	1.6%
Price/Book Value Ratio	2.8	2.8	3.8	4.3	5.0	5.7	8.4	11.2	5.7	4.5

GLOSSARY

Price/Earnings Ratio: Ratio derived from price divided by earnings.

Dividend Yield: Current dividends divided by current price expressed as a percentage.

Price/Book Value Ratio: Ratio derived from price divided by book value per share.

Beta (Market Sensitivity): The historical relation between market movements and movements in the prices of securities in a current portfolio.

Ten Largest Holdings

Equity Portfolio	
General Electric Co.	3.3%
Pfizer, Inc.	3.1
Citigroup, Inc.	2.8
Exxon Mobil Corp.	2.5
Microsoft Corp.	2.3
American International Group, Inc.	2.3
Wells Fargo & Co.	2.2
Bank of America Corp.	2.0
Merck & Co., Inc.	1.9
Cisco Systems, Inc.	1.6
Total	24.0%

Distribution by Market Sector

Market Sector	SDRS Total Equity	Russell 1000
Business Equipment & Service	1.7%	3.7%
Capital Goods/Technology	16.6	16.6
Consumer Durables/Shelter	4.8	3.7
Consumer Non-Durables	6.7	8.8
Consumer Services/Retail	10.7	11.7
Energy	6.8	6.1
Financial Services	23.1	20.5
Health Care	13.6	14.2
Multi-Industry	3.9	4.0
Raw Materials	2.5	2.1
Transportation	0.7	1.2
Utilities	7.1	7.4
Cash Equivalents	1.8	0.0
Total	100.0%	100.0%

A complete list of holdings is available in the annual report of the South Dakota Investment Council.

South Dakota Investment Council
4009 West 49th Street, Suite 300
Sioux Falls, South Dakota 57106-3784



The South Dakota Retirement System Trust Fund's internally managed Fixed Income (bond) portfolio characteristics for the past 10 years are presented below. The Lehman Aggregate Bond Index is presented for comparative purposes. The Cash Equivalents percent represents the percentage of the total bond portfolio invested in cash equivalents.

Bond Profile

South Dakota Investment Office	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of Issues	61	66	47	48	55	56	62	60	67	76
Average Coupon	7.11%	6.26%	7.69%	6.76%	6.87%	6.84%	6.32%	6.23%	6.68%	6.41%
Yield to Maturity	6.07%	7.29%	7.28%	7.34%	7.36%	6.66%	7.09%	7.76%	7.01%	6.72%
Average Maturity (Years)	9.96	7.98	9.27	6.58	7.68	8.51	7.70	6.88	7.02	8.40
Duration (Years) ¹	6.46	5.65	5.56	4.92	5.81	5.85	6.07	5.56	5.56	5.92
Average Quality ²	3.36	3.40	3.24	3.28	3.12	3.02	3.15	3.22	3.33	3.01
Cash Equivalent %	5.7%	20.9%	14.0%	14.6%	0.4%	0.9%	2.2%	5.80%	0.50%	0.50%

Shearson Lehman Aggregate Bond Index										
Number of Issues	6076	6124	5167	5463	5799	6860	7180	5974	2912	3048
Average Coupon	7.96%	7.48%	7.41%	7.23%	7.20%	7.06%	6.74%	6.85%	6.75%	6.44%
Yield to Maturity	5.78%	7.41%	6.61%	6.95%	6.83%	6.14%	6.58%	7.24%	6.10%	5.21%
Average Maturity (Years)	8.79	9.02	8.64	8.76	8.53	8.35	8.89	7.77	8.24	6.91
Duration (Years) ¹	5.02	5.18	5.09	5.15	5.27	5.37	5.54	4.91	4.74	4.54

The South Dakota Retirement System fixed income portfolio profile distribution is as follows:

Distribution Profile

Distribution by Duration

	Percent
0 to 2 years	11.6%
2 to 3 years	15.0
3 to 4 years	22.8
4 to 5 years	6.9
5 to 6 years	6.9
6 to 8 years	14.8
Above 8 years	22.0
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/Cash Equivalents	0.5%
AAA	63.3
AA	0.0
A	6.6
BAA	13.2
BA	10.7
B	4.8
CCC	0.9
Total	100.0%

Distribution by Coupon

	Percent
Cash/Cash Equivalents	0.5%
0.0% - 6.5%	51.7
6.51% - 7.5%	25.2
7.51% - 9.0%	18.8
9.01% and over	3.8
Total	100.0%

Distribution by Issue

	Percent
Cash/Cash Equivalents	0.5%
U.S. Treasury/Agency	32.3
Mortgage Backed Securities	31.0
Investment Grade Corporates	24.5
High Yield Corporates	11.7
Total	100.0%

¹ The weighted average maturity of the stream of payments associated with a bond.

² (AAA = 4, AA = 3, A = 2, BAA = 1)

Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996
TOTAL INVESTMENT FUND	15.2%	4.8%	14.1%	16.7%
Cash Equivalents	3.4	3.4	5.6	5.8
Investment Office Bond Fund	16.2	-0.1	14.1	5.9
Investment Office Equity Fund	14.9	4.8	21.8	28.1
Internal International	5.6	22.3	9.2	23.6
Arbitrage Convertible Fund		4.1	9.8	10.0
Arbitrage Merger Fund	3.7	15.3	12.2	17.6
International Composite	9.9	22.7	7.5	21.9
Global Equity Composite	14.6	6.7	18.9	27.1
INDICIES				
Bond Index				
Fixed Income Benchmark	12.0	-1.2	12.5	6.2
Equity Index				
Standard & Poor's 500	13.6	1.4	26.1	26.0
Russell 1000	15.3	0.7	25.5	26.3
International Index				
International Benchmark	14.7	17.6	5.3	13.7
Total Fund Benchmarks				
Russell/Mellon Total Bil \$ Funds	13.9	4.3	15.8	17.4
Capital Market Benchmark	11.8	2.4	16.9	15.5
Consumer Price Index	3.0	2.5	3.0	2.8

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1993 – 2002	Fiscal 1994 – 2002	Fiscal 1995 – 2002	Fiscal 1996 – 2002
TOTAL INVESTMENT FUND	10.6%	10.1%	10.7%	10.3%
Cash Equivalents	4.8	5.0	5.2	5.1
Investment Office Bond Fund	8.0	7.1	8.1	7.2
Investment Office Equity Fund	11.8	11.5	12.3	11.1
Arbitrage Convertible Fund		8.0	8.4	8.3
Arbitrage Merger Fund	13.1	14.2	14.0	14.3
Internal International	11.8	12.5	11.3	11.6
International Composite	10.6	10.7	9.3	9.5
Global Equity	12.1	11.8	12.4	11.6
INDICIES				
Bond Index				
Fixed Income Benchmark	7.4	6.9	8.0	7.3
Equity Index				
Standard & Poor's 500	11.5	11.2	12.5	10.7
Russell 1000	11.4	11.0	12.3	10.6
International Index				
International Benchmark	6.1	5.2	3.7	3.5
Total Fund Benchmarks				
Russell/Mellon Total Bil \$ Funds	9.9	9.5	10.3	9.4
Capital Market Benchmark	9.2	8.9	9.8	8.8
Consumer Price Index	2.5	2.5	2.5	2.4

Performance information prepared in compliance with AIMR performance presentation standards.

Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
21.3%	19.3%	14.6%	10.8%	-2.9%	-4.9%
5.3	5.6	5.1	5.7	6.0	2.5
9.9	12.6	2.4	4.3	10.0	5.9
33.2	32.5	19.0	11.3	-14.9	-18.3
26.3	3.0	21.4	9.6	-3.0	4.2
11.4	10.0	7.6	8.7	6.5	3.8
18.8	21.8	16.5	18.4	6.2	2.1
24.1	-3.4	21.1	11.0	-7.0	3.6
31.7	25.6	19.5	10.9	-12.0	-12.2
9.6	11.2	2.9	3.8	11.2	7.0
34.8	30.3	22.7	7.4	-14.8	-18.0
32.3	30.2	21.9	9.2	-15.0	-17.9
16.3	10.5	6.2	16.4	-23.0	-8.4
20.4	18.4	11.5	11.1	-5.8	-6.6
18.9	18.4	13.3	9.7	-5.1	-5.8
2.5	1.6	2.0	3.7	3.2	1.1

Fiscal 1997 – 2002	Fiscal 1998 – 2002	Fiscal 1999 – 2002	Fiscal 2000 – 2002	Fiscal 2001 – 2002	Fiscal 2002
9.2%	6.9%	4.1%	0.8%	-3.9%	-4.9%
5.0	5.0	4.8	4.7	4.2	2.5
7.5	7.0	5.6	6.7	7.9	5.9
8.4	4.1	-2.0	-8.2	-16.6	-18.3
8.0	7.3	6.6	6.3	5.1	3.8
13.7	12.7	10.6	8.7	4.1	2.1
9.8	6.7	7.7	3.4	0.5	4.2
7.6	4.6	6.7	2.3	-1.9	3.6
9.2	5.1	0.6	-5.1	-12.1	-12.2
7.5	7.1	6.2	7.3	9.1	7.0
8.3	3.7	-2.0	-9.1	-16.4	-18.0
8.2	3.9	-1.8	-8.6	-16.4	-17.9
1.9	-0.7	-3.4	-6.4	-16.0	-8.4
8.1	5.7	2.8	-0.3	-5.9	-6.6
7.7	5.6	2.6	-0.7	-5.5	-5.8
2.3	2.3	2.5	2.7	2.2	1.1

INVESTMENT SUMMARY (CONTINUED)

Asset Allocation

Asset Allocation is an investor's most important investment issue. The South Dakota Investment Council and Office spend a significant amount of time dealing with complicated issues relating to the risk of the portfolio versus likelihood of achieving the investment objectives for the South Dakota Retirement System.

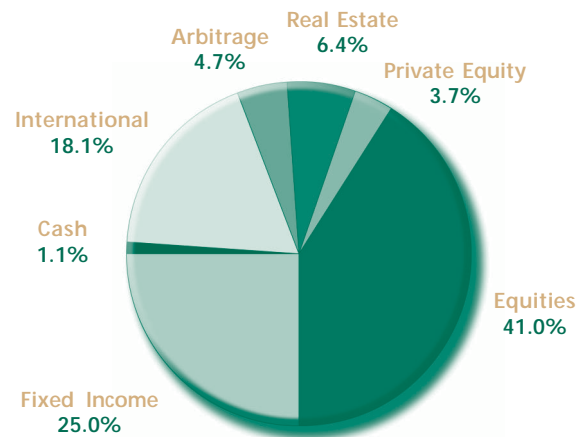
Four years ago, the Investment Office prepared two in-depth analyses for study by the Investment Council. The first dealt with the overall domestic equity-like characteristics that are implicit in a diversified portfolio, which invests in a variety of different asset categories. The analysis determined that the equity-like characteristics of the portfolio represent 65 percent of the assets. Under a bad-time scenario the overall equity-like characteristics could rise to 77 percent.

The second important analysis was related to the likelihood that SDRS' financial health would survive a truly significant bear market in financial assets. The portfolio was stress tested against the worst domestic stock and bond market since World War II. Under this severe testing, SDRS weathered the storm and maintained its financial health. In light of the more difficult market place of the last year, SDRS will continue to monitor this situation.

SDRS' asset allocation and underlying asset performance have continued to generate an attractive risk versus return profile. Ongoing analysis dealing with both the risk and return potential inherent in the Investment Council's asset allocation is an important element of continuing successful asset management for SDRS.

Asset Allocation as of June 30, 2002

	6/30/00	6/30/01	6/30/02
Equities	35.7%	40.5%	41.0%
Fixed Income	23.1	23.0	25.0
Cash	5.3	1.3	1.1
International	16.0	16.4	18.1
Arbitrage	8.9	9.4	4.7
Real Estate	6.7	5.7	6.4
Private Equity	4.4	3.7	3.7



STATISTICAL SUMMARY



Membership Profile

- Public Entities Participating in SDRS
- SDRS Benefits Paid
- Membership by Age
- Membership by County of Residence
- Membership by Group
- Benefit Recipients by Group
- Historical Views

MEMBERSHIP PROFILE

Public Entities Participating in SDRS

All teachers, higher education personnel, and legislative, executive and judicial employees are required to participate in SDRS. Counties, municipalities and other public entities, however, have the option of participating, and school districts may choose whether or not to include their classified employees.

The following schedules list SDRS participating entities by group, the number of active members in each group and each group's percentage of the 35,130 total active members as of June 30, 2002.

School Districts

Membership: 16,351
**Percentage of Total
 Active Members: 46.5%**
Units: 187

Aberdeen	Cresbard	Hanson	Mid-Central Multi	Smee
Agar-Blunt-Onida	Children's Care	Harding	Service Coop	South Central
Alcester	Custer	Harrisburg	Midland	South East Area
Alpena	Dakota Valley	Harrod	Milbank	South Shore
Andes Central	Dell Rapids	Henry	Miller	Spearfish
Arlington	DeSmet	Herreid	Mitchell	Stanley County
Armour	Deubrook Area	Hill City	Mobridge	Stickney
Artesian-Letcher	Deuel	Hitchcock	Montrose	Summit
Avon	Doland	Hot Springs	Mt. Vernon	Three Rivers
Baltic	Douglas	Hoven	Newell	Timber Lake
Belle Fourche	Dupree	Howard	New Underwood	Todd County
Bennett County	Eagle Butte	Hub Area	North Central Coop	Tripp-Delmont
Beresford	East Central	Hurley	North East Ed	Tri-Valley
Big Stone City	East Dakota Ed	Huron	Serv	Tulare
Bison	Edgemont	Hyde County	Northwest Area	Veblen
Black Hills	Edmunds Central	Ipswich	Northwest Ind	Vermillion
Special Serv	Elk Mountain	Irene	Northwestern	Viborg
Bonesteel-Fairfax	Elk Point-	Iroquois	Oahe Special Ed	Wagner
Bon Homme	Jefferson	Isabel	Oelrichs	Wakonda
Bowdle	Elkton	Jones County	Oldham-Ramona	Wall
Brandon Valley	Elm Valley	Kadoka	Parker	Warner
Bridgewater	Emery	Kimball	Parkston	Watertown
Bristol	Estelline	Lake Area Multi	Pierre	Waubay
Britton-Hecla	Ethan	Lake Central	Plankinton	Waverly
Brookings	Eureka	Lake Preston	Platte	Webster
Burke	Faith	Lake Region	Pollock	Wessington
Canistota	Faulkton	Langford	Polo	Wessington
Canton	Flandreau	Lead-Deadwood	Rapid City	Springs
Carthage	Florence	Lemmon	Redfield	West Central
Castlewood	Freeman	Lennox	Rosholt	White Lake
Centerville	Garretson	Leola	Roslyn	White River
Chamberlain	Gayville-Volin	Lyman	Rutland	Willow Lake
Chester	Geddes	McCook Central	Scotland	Wilmot
Clark	Gettysburg	McIntosh	Selby Area	Winner
Colman-Egan	Grant-Deuel	McLaughlin	Shannon County	Wolsey
Colome	Gregory	Marion	Sioux Falls	Wood
Conde	Groton	Meade County	Sioux Valley	Woonsocket
Cornbelt Coop	Haakon	Menno	Sisseton	Yankton
Corsica	Hamlin			

Legislative, Executive and Judicial Agencies

Membership: 7,682
**Percentage of Total Active
 Members: 21.9%**
Units: 1

Executive Management	Lottery	Public Utilities Commission
Agriculture	Military and Veterans Affairs	School and Public Lands
Commerce and Regulation	Revenue	Secretary of State
Corrections	Social Services	State Auditor
Education & Cultural Affairs	Tourism	State Treasurer
Game, Fish and Parks	Transportation	Legislative Audit
Health	Vocational Rehabilitation	Legislative Research Council
Human Services	Water and Natural Resources	Unified Judicial System
Labor	Attorney General	SD Investment Council
		SD Retirement System

Institutions of Higher Education

Membership: 3,794
**Percentage of Total Active
 Members: 10.8%**
Units: 1

Board of Regents Central Office	Dakota State University
University of South Dakota	South Dakota School for the Visually Handicapped
South Dakota State University	South Dakota School for the Deaf
South Dakota School of Mines and Technology	University of South Dakota Medical School
Northern State University	
Black Hills State University	

Aberdeen	Clear Lake	Harrisburg	Lead	Phillip	Valley Springs
Alcester	Colman	Hartford	Lemmon	Pickstown	Veblen
Arlington	Conde	Hayti	Lennox	Pierre	Vermillion
Armour	Custer	Hecla	Leola	Plankinton	Viborg
Aurora	Deadwood	Hermosa	Madison	Platte	Volga
Avon	Dell Rapids	Herreid	Marion	Pollock	Wagner
Belle Fourche	DeSmet	Highmore	Martin	Presho	Wakonda
Beresford	Edgemont	Hill City	McLaughlin	Pukwana	Wall
Big Stone City	Egan	Hot Springs	Menno	Rapid City	Watertown
Bison	Elk Point	Hoven	Midland	Redfield	Waubay
Box Elder	Elkton	Howard	Milbank	Roscoe	Webster
Brandon	Emery	Hudson	Miller	Salem	Wessington
Britton	Estelline	Humboldt	Mitchell	Scotland	Springs
Brookings	Eureka	Hurley	Mobridge	Selby	White
Buffalo	Faith	Huron	Murdo	Sinai	White Lake
Burke	Faulkton	Ipswich	New	Sisseton	White River
Canistota	Flandreau	Irene	Underwood	Spearfish	Whitewood
Canton	Ft. Pierre	Jefferson	Newell	Springfield	Winner
Carthage	Freeman	Kadoka	North Sioux	Stickney	Woonsocket
Castlewood	Garretson	Kennebec	City	Sturgis	Worthing
Centerville	Gary	Keystone	Oacoma	Tabor	Yankton
Chamberlain	Gettysburg	Lake Andes	Onida	Tea	
Chancellor	Gregory	Lake Norden	Parker	Tripp	
Clark	Groton	Langford	Parkston	Tyndall	

Municipalities

Membership: 3,603

Percentage of Total Active Members: 10.3%

Units: 138

Aurora	Codington	Faulk	Jerauld	Mellette	Springdale
Beadle	Corson	Grant	Jones	Miner	Twp.
Bon Homme	Custer	Gregory	Kingsbury	Minnehaha	Stanley
Brookings	Davison	Haakon	Lake	Moody	Sully
Brown	Day	Hamlin	Lawrence	Pennington	Tripp
Brule	Deuel	Hand	Lincoln	Perkins	Turner
Butte	Dewey	Hanson	Lyman	Potter	Union
Campbell	Douglas	Harding	Marshall	Roberts	Walworth
Charles Mix	Edmunds	Hughes	McCook	Sanborn	Yankton
Clark	Fall River-	Hutchinson	McPherson	Spink	Ziebach
Clay	Shannon	Hyde	Meade		

Counties

Membership: 3,392

Percentage of Total Active Members: 9.7%

Units: 62

Aberdeen Housing	Faulk Cty Cons	Miner Cty Cons
Assoc School Boards	Grant Cty Cons	Minnehaha Cty Cons
B-Y Water Dist	Haakon Cty Conv Dist	Missouri Valley Ambul
Beadle Cty Cons	Hanson-McCook Reg Library	Mitchell Housing
Belle Fourche Irrigation	Harding Cty Cons	N.E. Council of Govts
Black Hawk Water Dist	Hamlin Cty Cons	Pennington Cty Housing Dev
Black Hills Local Govt	Heartland Consumer Power	Perkins Cty Cons
Brown-Marshall Cons	Hill City Ambulance	Pierre Housing & Redev
Brule-Buffalo Cons	Hill City Fire Protection	Randall Community Water
Butte-Meade Sanitary Dist	Hot Springs Housing	Rapid Valley Sanitary Dist
Campbell Cty Cons	Hyde Cty Cons Dist	Redfield Housing
Canton Housing and Redev	Jerauld Cons Dist	Sioux Falls Airport Authority
Central Plains Water	Kingsbury Cty Cons	Sisseton Housing
Central SD Enhancement Dist	Lake Madison Sanitary Dist	South Brown Cty Cons
Clark Cty Cons	Lead-Deadwood Sanitary Dist	Southern Missouri Recycle
Codington Cty Cons	Lennox Housing	SD Building Authority
Dakota Dunes Improvement	Lincoln Cty Cons	SD Housing Authority
Dakota Valley Fire	Marshall Cty Cons	SD Municipal League
Davison Cons Dist	McCook-Lake Sanitary Dist	SD Assoc of Cty Comm
Day Cty Cons	Meade Cty Housing & Redev	SD Assoc of Cty Officials
Deuel Cty Cons	Mid-Dak Water Redev	Spink Cty Cons
East Dakota Water Dev	Milbank Housing & Redev	Walworth Cty Cons
Edmunds Cty Cons	Miller Housing & Redev	Webster Housing
Fall River Water	Mina Lake Water Dist	West River Water Dev Dist

Other Public Entities

Membership: 308

Percentage of Total Active Members: 0.8%

Units: 72

MEMBERSHIP PROFILE (CONTINUED)

SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

County	FY 2002		County	FY 2002	
	Members Receiving Benefits	Annual Benefits ¹		Members Receiving Benefits	Annual Benefits ¹
Aurora	91	\$673	Hyde	28	222
Beadle	423	4,422	Jackson	32	402
Bennett	30	274	Jerauld	49	373
Bon Homme	223	2,006	Jones	29	279
Brookings	898	11,573	Kingsbury	90	951
Brown	784	9,052	Lake	313	3,430
Brule	96	924	Lawrence	536	5,934
Buffalo	2	7	Lincoln	188	1,846
Butte	191	1,683	Lyman	53	562
Campbell	44	316	Marshall	126	1,188
Charles Mix	167	1,523	McCook	64	730
Clark	94	693	McPherson	51	452
Clay	412	5,317	Meade	327	3,437
Codington	462	5,654	Mellette	32	230
Corson	25	339	Miner	61	472
Custer	189	2,084	Minnehaha	1,403	19,753
Davison	395	4,440	Moody	98	909
Day	136	1,321	Pennington	1,664	21,301
Deuel	90	554	Perkins	67	542
Dewey	51	479	Potter	76	699
Douglas	44	358	Roberts	157	1,360
Edmunds	66	690	Sanborn	66	558
Fall River	190	1,510	Shannon	10	82
Faulk	107	813	Spink	343	2,617
Grant	151	1,451	Stanley	98	1,317
Gregory	91	854	Sully	27	183
Haakon	39	356	Todd	29	251
Hamlin	91	974	Tripp	120	1,167
Hand	76	769	Turner	169	1,532
Hanson	34	276	Union	165	1,552
Harding	23	164	Walworth	156	1,635
Hughes	876	12,714	Yankton	580	5,724
Hutchinson	176	1,865	Ziebach	11	97

Total Benefits Payable by County **13,985** **\$157,915**

SDRS Benefits Paid Outside of South Dakota

State	Members Receiving Benefits		State	Members Receiving Benefits	
	Members Receiving Benefits	Annual Benefits ¹		Members Receiving Benefits	Annual Benefits ¹
Arizona	273	\$3,135	Texas	101	972
California	77	603	Washington	56	478
Colorado	94	865	Wyoming	72	564
Florida	65	787			
Iowa	115	939	Other States and Foreign Countries		
Minnesota	258	2,209		532	4,866
Nebraska	192	1,426			
North Dakota	73	581			

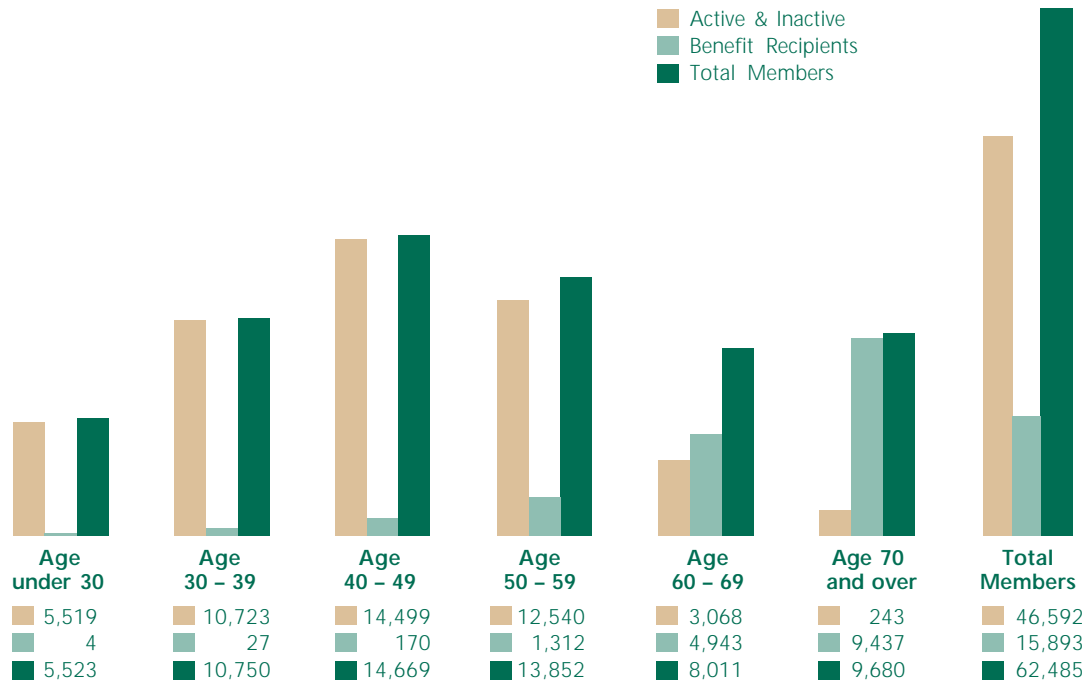
Total Benefits Payable Outside South Dakota **1,908** **\$17,425**

Total Benefit Recipients and Benefits Payable **15,893** **\$175,340**

¹ In thousands

² Total represents the annualized benefits payable as of July 1, 2002.

Membership by Age



County	Total Members	County	Total Members	County	Total Members
Aurora	299	Faulk	306	Mellette	211
Beadle	1,297	Grant	467	Miner	205
Bennett	142	Gregory	368	Minnehaha	6,437
Bon Homme	746	Haakon	180	Moody	439
Brookings	3,702	Hamlin	463	Pennington	6,799
Brown	2,888	Hand	249	Perkins	236
Brule	423	Hanson	172	Potter	245
Buffalo	9	Harding	116	Roberts	616
Butte	766	Hughes	3,971	Sanborn	225
Campbell	137	Hutchinson	556	Shannon	124
Charles Mix	698	Hyde	124	Spink	1,241
Clark	329	Jackson	144	Stanley	537
Clay	1,856	Jerauld	178	Sully	133
Codington	1,836	Jones	111	Todd	469
Corson	218	Kingsbury	442	Tripp	537
Custer	788	Lake	1,035	Turner	605
Davison	1,260	Lawrence	2,115	Union	765
Day	485	Lincoln	870	Walworth	516
Deuel	327	Lyman	254	Yankton	2,166
Dewey	326	Marshall	404	Ziebach	99
Douglas	213	McCook	327	Out of State	5,585
Edmunds	248	McPherson	179		
Fall River	738	Meade	1,533		

Total Membership 62,485

Membership by County of Residence

Active, Inactive and Retired Members

MEMBERSHIP PROFILE (CONTINUED)

Membership by Group	Active Members			Inactive Members			Total Members
	Vested	Non-Vested	Total Active	Vested	Non-Vested	Total Inactive	
Boards of Regents							
Female	681	200	881	228	164	392	1,273
Male	988	255	1,243	332	150	482	1,725
Total	1,669	455	2,124	560	314	874	2,998
County General							
Female	1,081	380	1,461	223	248	471	1,932
Male	1,008	346	1,354	144	185	329	1,683
Total	2,089	726	2,815	367	433	800	3,615
County Public Safety							
Female	70	39	109	3	16	19	128
Male	337	131	468	19	26	45	513
Total	407	170	577	22	42	64	641
Judicial							
Female	10	0	10	0	0	0	10
Male	42	3	45	3	0	3	48
Total	52	3	55	3	0	3	58
Municipal General							
Female	829	363	1,192	198	308	506	1,698
Male	1,297	402	1,699	154	189	343	2,042
Total	2,126	765	2,891	352	497	849	3,740
Municipal Public Safety							
Female	17	12	29	5	8	13	42
Male	527	172	699	25	40	65	764
Total	544	184	728	30	48	78	806
Public School & Board of Regents Classified							
Female	3,567	1,681	5,248	937	1,624	2,561	7,809
Male	1,281	631	1,912	261	600	861	2,773
Total	4,848	2,312	7,160	1,198	2,224	3,422	10,582
State General							
Female	2,669	998	3,667	582	670	1,252	4,919
Male	2,395	744	3,139	415	401	816	3,955
Total	5,064	1,742	6,806	997	1,071	2,068	8,874
State Public Safety & Penitentiary							
Female	96	50	146	9	41	50	196
Male	526	149	675	43	72	115	790
Total	622	199	821	52	113	165	986
Teachers							
Female	7,018	1,026	8,044	1,542	727	2,269	10,313
Male	2,681	428	3,109	567	303	870	3,979
Total	9,699	1,454	11,153	2,109	1,030	3,139	14,292
Grand Total							
Female	16,038	4,749	20,787	3,727	3,806	7,533	28,320
Male	11,082	3,261	14,343	1,963	1,966	3,929	18,272
Total	27,120	8,010	35,130	5,690	5,772	11,462	46,592

Benefit Recipients by Group

	Retirement Benefits		Disability Benefits		Survivor Benefits		Total Benefits	
	2001	2002	2001	2002	2001	2002	2001	2002
Boards of Regents								
Male	651	681	7	6	9	9	667	696
Female	198	217	3	6	156	167	357	390
Total	849	898	10	12	165	176	1,024	1,086
County General								
Male	487	477	44	46	32	39	563	562
Female	527	525	16	16	262	273	805	814
Total	1,014	1,002	60	62	294	312	1,368	1,376
County Public Safety								
Male	77	83	4	4	1	1	82	88
Female	5	7	0	0	13	15	18	22
Total	82	90	4	4	14	16	100	110
Judicial								
Male	28	30	0	0	0	0	28	30
Female	1	1	0	0	16	16	17	17
Total	29	31	0	0	16	16	45	47
Municipal General								
Male	482	499	30	31	21	21	533	551
Female	299	313	8	11	237	243	544	567
Total	781	812	38	42	258	264	1,077	1,118
Municipal Public Safety								
Male	261	288	32	23	0	0	293	311
Female	2	2	4	3	56	60	62	65
Total	263	290	36	26	56	60	355	376
Public School & Board of Regents Classified								
Male	607	627	31	35	84	87	722	749
Female	1,487	1,575	38	38	227	236	1,752	1,849
Total	2,094	2,202	69	73	311	323	2,474	2,598
State General								
Male	1,419	1,430	54	53	79	82	1,552	1,565
Female	1,242	1,273	50	52	589	604	1,881	1,929
Total	2,661	2,703	104	105	668	686	3,433	3,494
State Public Safety & Penitentiary								
Male	196	209	6	8	1	1	203	218
Female	7	7	0	1	34	35	41	43
Total	203	216	6	9	35	36	244	261
Teachers								
Male	1,455	1,536	21	22	212	229	1,688	1,787
Female	3,226	3,272	51	52	305	316	3,582	3,640
Total	4,681	4,808	72	74	517	545	5,270	5,427
Grand Total								
Male	5,663	5,860	229	228	439	469	6,331	6,557
Female	6,994	7,192	170	179	1,895	1,965	9,059	9,336
Total	12,657	13,052	399	407	2,334	2,434	15,390	15,893

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	1997	1998	1999	2000	2001	2002
Board of Regents	867	902	931	973	1,024	1,086
County General	1,198	1,225	1,292	1,330	1,368	1,376
County Public Safety	79	82	88	95	100	110
Judicial	51	48	49	47	45	47
Municipal General	968	996	1,029	1,058	1,077	1,118
Municipal Public Safety	306	319	327	346	355	376
Public School & Board of Regents Classified	2,109	2,230	2,283	2,393	2,474	2,598
State General	3,132	3,196	3,239	3,336	3,433	3,494
State Public Safety & Penitentiary	237	244	254	229	244	261
Teachers	4,715	4,824	4,880	5,121	5,270	5,427
Total Benefit Recipients	13,662	14,066	14,372	14,928	15,390	15,893
Total Benefits Paid During Period	\$89,903,989	\$100,699,600	\$113,705,428	\$133,775,649	\$153,192,955	\$166,265,639
Average Benefits Paid During Period	\$6,581	\$7,159	\$7,912	\$8,961	\$9,954	\$10,462

Active and Inactive Members

Group	1997	1998	1999	2000	2001	2002
Board of Regents	2,668	2,781	2,798	2,830	2,882	2,998
County General	3,247	3,369	3,460	3,608	3,675	3,615
County Public Safety	346	371	366	425	483	641
Judicial	56	57	57	58	61	58
Municipal General	3,005	3,283	3,299	3,409	3,613	3,740
Municipal Public Safety	709	739	750	750	778	806
Public School & Board of Regents Classified	7,840	8,342	8,772	9,446	10,075	10,582
State General	7,670	7,938	8,054	8,254	8,550	8,874
State Public Safety & Penitentiary	801	952	919	969	972	986
Teachers	13,159	13,525	13,650	13,863	14,114	14,292
Total Active and Inactive Members	39,501	41,357	42,125	43,612	45,203	46,592

Benefits and Expenses by Type

	Retirement Benefits	Disability Benefits	Survivor Benefits	Refund Benefits	Total Benefits	Administrative Expenses
Fiscal Year 1993	\$ 51,992,224	\$ 1,438,896	\$ 5,333,474	\$ 6,097,198	\$ 64,861,792	\$ 1,835,327
Fiscal Year 1994	56,791,494	1,697,128	6,001,326	5,621,935	70,111,883	1,804,657
Fiscal Year 1995	64,519,329	1,984,534	6,808,584	6,542,145	79,854,592	2,130,027
Fiscal Year 1996	71,435,953	2,759,606	7,712,652	8,643,978	90,552,189	1,868,261
Fiscal Year 1997	78,464,626	3,310,265	8,129,098	10,386,335	100,290,324	1,984,493
Fiscal Year 1998	87,649,535	3,350,470	9,699,594	7,114,027	107,813,627	2,055,131
Fiscal Year 1999	100,549,552	3,284,394	9,871,299	34,431,120	148,136,365	2,536,815
Fiscal Year 2000	118,415,493	3,816,883	11,543,273	26,213,018	159,988,667	2,348,991
Fiscal Year 2001	135,507,333	3,999,932	13,685,690	24,227,022	177,419,977	2,403,024
Fiscal Year 2002	147,517,321	3,925,986	14,822,332	22,130,027	188,395,666	2,440,353

Revenue by Source

	Employee Contributions	Employer Contributions	Total Contributions	Investment Income	Total Revenue
Fiscal Year 1993	\$41,707,536	\$39,319,892	\$81,027,428	\$265,259,205	\$346,286,633
Fiscal Year 1994	46,164,879	43,991,265	90,156,144	98,012,985	188,169,130
Fiscal Year 1995	50,412,248	46,238,393	96,650,641	300,943,775	397,594,416
Fiscal Year 1996	50,488,958	45,022,762	95,511,720	411,522,763	507,034,483
Fiscal Year 1997	50,499,239	47,664,275	98,163,514	610,759,156	708,922,671
Fiscal Year 1998	51,708,722	47,145,364	98,854,086	666,000,707	764,854,793
Fiscal Year 1999	55,001,264	50,069,614	105,070,878	591,101,260	696,172,138
Fiscal Year 2000	58,508,147	52,622,437	111,130,584	490,386,117	601,516,701
Fiscal Year 2001	62,310,957	55,697,940	118,008,897	(154,774,807)	(36,765,910)
Fiscal Year 2002	66,311,285	58,544,918	124,856,203	(248,826,201)	(123,969,993)



For More Information

For more information on the South Dakota Retirement System, write or call:

South Dakota Retirement System
P.O. Box 1098
Pierre, South Dakota 57501-1098
Phone: (605) 773-3731
Fax: (605) 773-3949
TDD: (605) 773-3958

A comprehensive brochure explaining the system's provisions is available on request.

2002



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2002

SOUTH DAKOTA RETIREMENT SYSTEM
222 EAST CAPITOL, SUITE 8
P.O. BOX 1098
PIERRE, SOUTH DAKOTA 57501-1098
(605) 773-3731

SDRS MISSION STATEMENT

To plan, implement and administer income replacement programs that give SDRS members and their families the opportunity to achieve financial security at retirement, death or disability by providing an outstanding, appropriate and equitable level of benefits.

The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.

FISCAL YEAR 2002 HIGHLIGHTS

Total Membership	62,485
Active Contributing Members	35,130
Inactive Non-Contributing Members	11,462
Benefit Recipients	15,893
Net Assets Held in Trust for Pension Benefits	\$4,624,899,872
Actuarial Value of Assets	\$4,425,392,396
Actuarial Accrued Liability (AAL)	\$4,576,948,810
Investment Return	-4.9%
<u>Benefits and Refunds Paid</u>	
Benefits Paid	\$ 166,265,639
Refunds Paid	<u>22,130,027</u>
Total	\$ 188,395,666
<u>Contributions</u>	
Member	\$ 66,311,285
Employer	<u>58,544,918</u>
Total	\$124,856,203
Funding Period	20 years
Funded Ratio (Actuarial Value of Assets/AAL)	96.7%