



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, 2003

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 \$2.88 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, 2002

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.



Handwritten signature of Richard Harrop in blue ink.

President

Handwritten signature of Jeffrey R. Erner in blue ink.

Executive Director

INTRODUCTION



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

CHAIR'S LETTER

To Our Members:

The investment climate in recent years has resulted in a nationwide concern over the funded status of public retirement plans. Governing boards, legislators and executive branch representatives across the country are considering initiatives to improve the funded status of retirement plans.

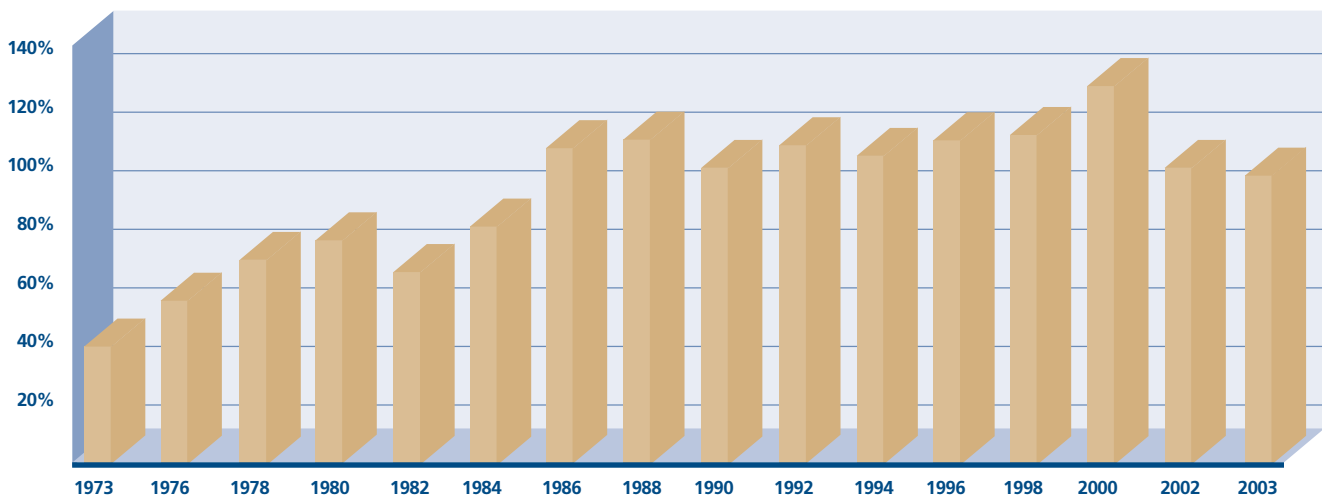
SDRS has fared better than virtually all other public plans because of the strength of its funded status before the investment decline, the substantial reserve set aside to counter a downturn, prudent recommendations for benefit improvements and superior investment performance in good and bad times. Although the reserve for funding long-term benefit goals (benefit improvements) is depleted, SDRS is still well funded with plan assets in balance with plan liabilities.

However, as a part of the Board of Trustees' on-going review of the financial status of SDRS, a number of areas of concern have been identified. Accordingly, the board has initiated proposed changes to several SDRS benefit provisions. The reasons for proposing changes to these specific provisions include:

- Costs that are higher than anticipated
- Benefits that exceed the amount intended
- Inequitable distributions of benefits

While the proposed changes don't significantly reduce the current costs for the system or add dollars to the reserve for funding long-term benefit goals (benefit improvements), they do avoid the addition of new expenses in the future. As a consequence, actual benefit costs will be more closely in line with expected benefit payments — a critical goal in maintaining the strong financial condition of the system.

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





Customer Service

As we attend to the system's financial security, we will also be expanding the services we offer to our members. Technology will play an important part in this expansion and our Web site will be especially critical. Ultimately members will be able to use the Web site to view their confidential personal data pertaining to SDRS including their years of service, total contributions and the amount of their projected retirement benefit. Employers will also have the convenience of using the site to file reports, access forms and make contributions electronically.

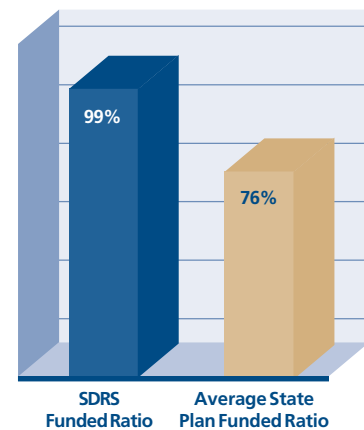
But our emphasis on customer service will go beyond technology. We will also upgrade our one-on-one pre-retirement counseling sessions currently being presented in locations across the state. Some of these sessions will now include SDRS' senior staff and will be complemented by larger regional informational meetings and authorized agent training seminars.

Our goal is to keep SDRS financially secure, open to innovation and highly responsive to the needs of our membership. SDRS has acquired a singular reputation for excellence, and we are confident that we will continue to be one of the premier retirement plans in the nation.

Sincerely,

Elmer P. Brinkman
Chair

SDRS Funded Ratio Far Superior to National Average



LETTER OF TRANSMITTAL

South Dakota Retirement System
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Pierre, South Dakota 57501-1098
Telephone (605) 773-3731
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South Dakota Retirement System

January 22, 2004

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, 2003. 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, 2003, it provided retirement, disability and survivor benefits to over 63,000 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 \$362.7 million for the fiscal year ending June 30, 2003, compared to (\$124.0) million in 2002. The increase was due to a 184.4 percent gain in dollars generated by investment returns.

	2002 (Millions)	2003 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
SDRS Revenues				
Contributions:				
Employees ¹	\$ 66.3	\$ 80.8	\$ 14.5	21.9%
Employers	58.5	72.0	13.5	23.1%
Investments	(248.8)	209.9	458.7	184.4%
Total Revenues	(\$124.0)	\$362.7	\$486.7	392.6%

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	<p>Variable</p>	<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	<p>2% Simple</p>	<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 	<p>Early Retirement: Age 55 with 6% per Year Reduction</p>	<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 Class B Judicial 	<p>Early Retirement: Age 45 with 6% per Year Reduction</p> <p>Early Retirement: Age 55 with 6% per Year Reduction</p>	<p>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)</p> <p>1978 — Reduction Decreased to 3% per Year 1990 — Rule of 80 (Age 55)</p>
Resolution of Member Issues <ul style="list-style-type: none"> Uncredited Service Class B Public Safety Class B Judicial Short-Service Employees <ul style="list-style-type: none"> —Deferred Benefits —Refunds Spouse Benefit 	<p>Buy at Cost</p> <p>Contribution Rate: 6% Normal Retirement: Age 55</p> <p>Normal Retirement: Age 65 Contribution Rate: 6%</p> <p>Frozen</p> <p>Employee Contributions Plus 5%</p> <p>50% of Retirement Allowance</p>	<p>1989 — Buy at 75% of Cost</p> <p>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</p> <p>1978 — Contribution Rate Increased to 8% 1982 — Contribution Rate Increasing 1/8 of 1% to 10% 1989 — Contribution Rate Capped at 9%</p> <p>1986 — Indexed</p> <p>1986 — Interest Indexed to the T-Bill Rate; 5% Minimum, 10% Maximum Guaranteed Refund of All Employer/Employee Contributions after Retirement</p> <p>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</p> <p>1999 — 60% of Retirement Allowance</p>

Expenses

In FY 2003, benefit payments comprised 89.1 percent of SDRS' total expenses, while refunds accounted for an additional 9.5 percent. Total benefit payments increased because of the system's cost-of-living allowance and increase in the number of members receiving benefits.

	2002 (Millions)	2003 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
SDRS Expenses				
Benefits	\$166.3	\$181.3	\$15.0	9.0%
Refunds	22.1	19.3	(2.8)	(12.7)%
Administrative Expenses	<u>2.4</u>	<u>2.8</u>	<u>0.4</u>	<u>14.6%</u>
Total Expenses	\$190.8	\$203.4	\$12.6	6.6%

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 5 percent for fiscal year (FY) 2003, the Investment Council benchmark return of 5.4 percent. The 10-year annualized return of 9.5 percent exceeds the benchmark return of 8.6 percent.

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2003 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, 2003, was 97.2 percent.

Major Initiatives

During FY 2003, 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 2003 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, 2002. 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 eighth 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.

SDRS also earned the Public Pension Standards 2003 Award from the Public Pension Coordinating Council.

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,



Robert A. Wylie
Administrator



Jane Roberts
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
Cabinet Secretary
South Dakota Department of Labor
Pierre

**Pamela S.
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

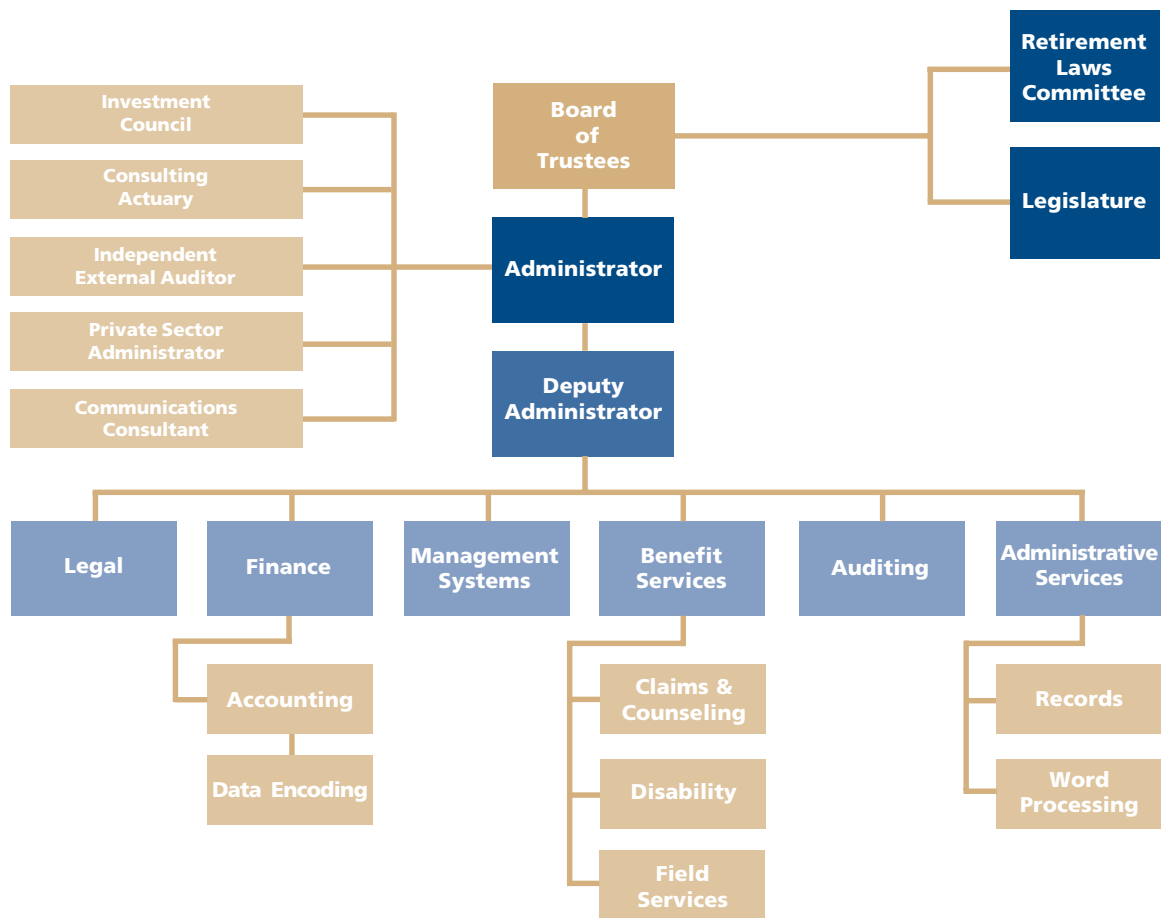
Represents Judicial Members
Board Service Began in June 1995
Justice
South Dakota Supreme Court
Pierre

**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	Robert A. Wylie
DEPUTY ADMINISTRATOR	Vacant
EXECUTIVE ASSISTANT	Arlis Ley

Management Group

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

Advisors, Auditors and Administrators

CONSULTING ACTUARY	Mellon Human Resources Denver, CO
EXTERNAL AUDITOR	KPMC LLP Omaha, NE
COMMUNICATIONS CONSULTANTS	Koupal Communications Pierre, SD Mellon Human Resources Denver, CO
PRIVATE SECTOR ADMINISTRATOR	Nationwide Retirement Solutions 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 1801
Omaha, NE 68102

233 South 13th Street, Suite 1800
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 of the South Dakota Retirement System (SDRS) as of June 30, 2003 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SDRS's 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, 2003 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2003 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's Discussion and Analysis is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the 2003 basic financial statements taken as a whole. The supplemental schedules of Funding Progress, Employer Contributions, Notes to Trend Data, Administrative Expenses, and Investment Expenses are presented for purposes of additional analysis and are not a required part of the 2003 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2003 basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2003 basic financial statements taken as a whole.

KPMG LLP

Omaha, Nebraska
October 23, 2003



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

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, 2003. 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 increased by \$159 million during fiscal year 2003. This increase was less than anticipated. This shortfall was primarily due to investment performance of 5 percent being below the assumed rate of 8 percent. Additionally, benefit payments were greater than member and employer contributions.
- SDRS Funded Ratio increased to 97.2 percent from 96.7 percent in 2002.
- SDRS Reserve for Funding of Long-Term Benefit Goals currently has a zero balance. Investment performance was \$142 million below expectations for fiscal year 2003.
- SDRS paid \$181 million to benefit recipients in fiscal year 2003 compared to \$166 million in 2002. SDRS received \$153 million in member and employer contributions in fiscal year 2003 compared to \$125 million in 2002.

Financial Highlights

Basic Financial Statements

The South Dakota Retirement System presents Statements of the Plan Net Assets as of June 30, 2003 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.

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.

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.

A summary of the plan net assets is shown on the following page.

Overview of the Financial Statements and Accompanying Information

Financial Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summary of Plan Net as of June 30, 2003

	2003	2002
Assets		
Cash and cash equivalents	\$ 10,605,947	\$ 13,231,545
Receivables	126,308,317	50,395,015
Investments	4,825,331,352	4,644,002,575
Invested securities lending collateral	252,146,504	256,419,776
Due from broker	0	0
Capital assets	26,531	23,333
Other assets	37,857	23,645
Total Assets	\$5,214,456,508	\$4,964,095,889
Liabilities		
Accounts payable	\$ 2,066,920	\$ 2,138,220
Securities sold, but not yet purchased	96,913,304	66,718,632
Unsettled investment purchases	78,963,014	13,090,205
Due to broker	179,718	829,184
Securities lending collateral	252,146,304	256,419,776
Total Liabilities	\$ 430,269,460	\$ 339,196,017
Net Assets Held in Trust for Pension Benefits	<u>\$4,784,187,048</u>	<u>\$4,624,899,872</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		
	2003	2002	Change
Funded Ratio	97.2%	96.7%	.5%

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 -4.9 percent in 2002 and 5 percent in 2003.

Revenue	2003	2002	% Change
Member contributions	\$ 80,806,420	\$ 66,311,285	21.9%
Employer contributions	71,989,308	58,544,918	23.0%
Investment income	<u>209,901,823</u>	<u>(248,826,201)</u>	<u>184.4%</u>
Total Revenues	<u>\$362,697,551</u>	<u>\$(123,969,998)</u>	<u>392.6%</u>

Deductions from Plan Net Assets are primarily benefit payments. During 2003, SDRS paid \$181 million to benefit recipients or 9 percent more than 2002. 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	2003	2002	% Change
Benefits	\$181,275,287	\$166,265,639	9.0%
Refunds of contributions	19,338,147	22,130,027	(12.6)%
Administrative expenses	<u>2,796,941</u>	<u>2,440,353</u>	<u>14.6%</u>
Total Expenditures	<u>\$203,410,375</u>	<u>\$190,836,019</u>	<u>6.6%</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.

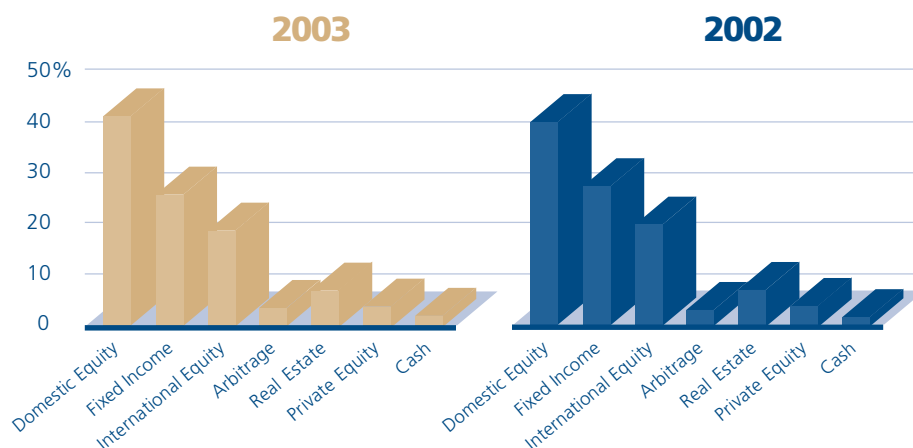
Investment performance during the last two years has been below the actuarial assumed rate of 8 percent at -4.9 percent in 2002 and 5 percent in 2003. While these nominal returns for the two years are well below the investment return assumption, the relative performance is in the top one-third compared 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	\$ 10,605,947
Receivables	
Employer	2,530,522
Employee	5,220,032
Benefits	59,398
Unsettled investment sales	99,550,179
Investment income	<u>18,948,186</u>

Total receivables	126,308,317
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Investments, at fair value

Fixed income	2,032,129,392
Equities	2,301,392,319
Real estate	296,184,217
Private equity	<u>195,625,424</u>

Total investments	4,825,331,352
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Invested securities lending collateral	252,146,504
Capital assets, at cost (net of accumulated depreciation of \$27,816)	26,531
Other assets	<u>37,857</u>

Total Assets	5,214,456,508
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Liabilities

Payables	
Accounts payable and accrued expenses	2,066,920
Securities sold, but not yet purchased, at fair value	96,913,304
Unsettled investment purchases	78,963,014
Due to brokers, future transactions	179,718
Securities lending collateral	<u>252,146,504</u>

Total Liabilities	430,269,460
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Net Assets Held In Trust For Pension Benefits	\$4,784,187,048
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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, 2003

Additions

Contributions:	
Employee	\$ 80,806,420
Employer	<u>71,989,308</u>

Total contributions **\$ 152,795,728**

Investment income:

From investing activities

Net decrease in fair value in investments	80,381,995
Interest	77,127,367
Dividends	49,940,002
Real estate	<u>14,482,749</u>
Investment activity loss	221,932,113
Less investment activity expenses	<u>(12,750,676)</u>

Net investment activity
 income 209,181,437

From security lending activities

Security lending income	2,882,177
Security lending expenses	<u>(2,161,791)</u>

Net security lending activity income 720,386

Total investment income **\$ 209,901,823**

Total additions **\$ 362,697,551**

Deductions

Benefits	181,275,287
Refunds of contributions	19,338,147
Administrative expenses	<u>2,796,941</u>

Total deductions **\$ 203,410,375**

Net increase **159,287,176**

Net assets held in trust for pension benefits

Beginning of year	<u>4,624,899,872</u>
End of year	<u>\$ 4,784,187,048</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, 2003, the number of participating governmental employers was:

School Districts	187
State of South Dakota	1
Board of Regents	1
Municipalities	140
Counties	63
Boards and Commissions	73
Total Employers	465

At June 30, 2003, SDRS Membership consisted of:

Retirees and Beneficiaries currently receiving benefits:

Class A (General employees)	15,600
Class B Public Safety and Judicial employees	841
Total Retirees and Beneficiaries	16,441

Terminated members entitled to benefits but not yet receiving them:

Class A (General employees)	12,020
Class B Public Safety and Judicial employees	359
Total Terminated members	12,379

Current active members:

Vested:	
Class A	26,013
Class B Public Safety and Judicial	1,657
Nonvested:	
Class A	6,819
Class B Public Safety and Judicial	625
Total Current active members	35,114
Grand Total	63,934

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.

(b) Method Used to Value Investments:

Investments are carried at fair value to properly reflect the asset values of the fund at June 30, 2003. Fair values were determined based on closing market prices at June 30, 2003 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, 2003 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 — 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, 2003 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, 2003).

Contributions during fiscal 2003 totaling \$152,795,728 (\$80,806,420 employee and \$71,989,308 employer) were made in accordance with statutory rates. These contributions represent 13.7 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:

Year Ending June 30	Employers	Employees
2004	\$ 36,798	\$1,517,420
2005	20,544	658,372
2006	5,812	406,134
2007	0	223,913
2008	0	113,394
Later	<u>0</u>	<u>122,226</u>
	63,154	3,041,459
Less amount representing interest	<u>4,151</u>	<u>332,755</u>
Deferred contributions receivable at June 30, 2003	<u>\$ 59,003</u>	<u>\$2,708,704</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, 2003, the actuarial value of assets equaled \$4,683,899,861. The Reserve is added to both the present value of future benefits and the actuarial value of assets. As of June 30, 2003, the balance in the Reserve for Funding of Long-term Benefit Goals is \$0.

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 \$10,605,947 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, 2003 were being managed by the following:

	Fair Value	Cost
State of South Dakota Investment Council	\$4,032,401,708	\$3,902,982,282
Dimensional Fund Advisors, Inc.	26,577,739	25,000,000
Capital International	58,897,875	59,616,065
Acadian International	56,610,934	50,896,556
Blackstone Real Estate Partners	214,673,073	204,049,431
Apollo	67,229,186	69,444,370
Nicholas Applegate	27,224,124	23,660,315
AIG	21,217,398	19,362,191
DLJ Merchant Bankers	12,279,187	15,301,705
Doughty Hanson	14,281,959	11,666,275
Crossroads	57,065,887	72,430,649
Silver Lake	35,652,181	16,842,394
KKR	16,423,837	18,231,412
MW Post Advisors Partners L.P.	139,124,001	121,443,599
Cypress Merchant Banking Partners L.P.	<u>45,672,263</u>	<u>51,123,419</u>
Total Investments	4,825,331,352	4,662,050,663
Securities sold, but not yet purchased	<u>(96,913,304)</u>	<u>(93,910,567)</u>
Total	\$4,728,418,048	\$4,568,140,096

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 distressed 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, 2003, 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 2003, the System's investments (including investments bought, sold, as well as held during the year) appreciated in value by \$80,381,995.

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, 2003
Increase (decrease) in fair value of investments:	
Equity securities	\$ (8,298,933)
Fixed income securities	78,649,241
Real estate	(6,604,212)
Private equity	<u>21,327,943</u>
Total increase in fair value	\$ 85,074,039
Realized gain on investments sold:	
Equity securities	(62,813,846)
Fixed income securities	37,156,655
Real estate	12,521,423
Private equity	<u>(10,655,117)</u>
Total net realized gains	\$ (23,790,885)
Net gain on futures contracts	<u>19,098,841</u>
Net increase in fair value of investments	\$ <u>80,381,995</u>

Investments Held By SDRS

as of June 30, 2003

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Cost</u>
Equity securities (common stocks, preferred stocks and convertible debentures)	\$1,416,483,792	\$103,555,477	\$0	\$1,520,039,269	\$1,416,080,894
U.S. government and government backed bonds	524,969,929	37,418,953		562,388,882	511,110,291
Corporate bonds	448,487,734	233,413,104		681,900,838	638,411,240
International equities	<u>675,967,988</u>		—	<u>675,967,988</u>	<u>721,878,769</u>
Subtotal	<u>\$3,065,909,443</u>	<u>\$374,387,534</u>	<u>\$0</u>	<u>3,440,296,977</u>	<u>3,287,481,194</u>
Money Market funds				787,839,672	787,841,244
Real estate funds				296,184,217	285,160,076
Equity international fund				105,385,062	100,461,159
Private Equity				<u>195,625,424</u>	<u>201,106,991</u>
Total Investments				4,825,331,352	4,662,050,664
Securities sold, but not yet purchased				<u>(96,913,304)</u>	<u>(93,910,567)</u>
Security lending collateral:					
Investment Portfolios				248,621,100	248,621,100
Pooled Funds				<u>3,525,404</u>	<u>3,525,404</u>
Total				<u>\$4,980,564,552</u>	<u>\$4,820,286,601</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, 2003 were as follows:

Description	Open Positions	Number of Contracts	Fair Value
S & P 500 Index due 9/18/2003	Long	2,061	\$502,111,125
NASDAQ 100 Index due 9/18/2003	Long	140	\$ 16,823,660
U.S. Treasury Note due 9/18/2003	Short	(395)	\$(65,923,130)

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 \$96,913,304 as of June 30, 2003. 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 GNMMAs, FHLMMCs and FNMMAs. The fair value of these securities as of June 30, 2003 was \$300,877,873. 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, 2003 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, 2003, a liability existed for accumulated annual leave calculated at the employee's June 30, 2003 pay rate in the amount of \$106,713. 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, 2003, a liability existed for accumulated and accrued sick leave, calculated at the employee's June 30, 2003 pay rate in the amount of \$130,184. The total leave liability of \$236,897 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, 2003 is as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2004	\$ 81,347
2005	81,347
2006	81,347
2007	<u>81,347</u>
Total Remaining Minimum Payments	<u>\$325,388</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 \$72,026,229 net assets available for Plan benefits at June 30, 2003, \$50,435,292 was held in trust for employees of the State of South Dakota while the remaining \$21,252,247 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 \$362,471 is included in the State of South Dakota total and the State's Comprehensive Annual Financial Report for the year ended June 30, 2003.

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
6-30-03	4,683.9	4,806.9	133.1	97.2	1,117.3	11.9

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
2003	71,989,308	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	6-30-2003
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 Return³	8%
Projected Salary Increase³	
based on age, with average of 5.5%	4.9% to 8.9%
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, 2003

	Cash Basis	Accrual Basis
Personal Services		
Salary and Per Diem	\$1,045,012	\$1,091,440
Employee Benefits	<u>265,161</u>	<u>274,674</u>
Total Personal Service	1,310,173	1,366,114
Operating Expenses		
Travel	37,482	39,410
Contractual Services		
Finance	66,952	66,952
Valuations	48,117	62,259
Consulting	211,602	275,942
Studies	57,344	78,862
Legal	6,387	6,387
Communications	202,489	202,489
Medical	11,408	11,408
Operations	<u>440,196</u>	<u>388,618</u>
Total Contractual Services	1,044,495	1,090,917
Supplies and Materials	236,770	221,444
Capital Assets	<u>49,820</u>	<u>79,056</u>
Total Operating Expenses	<u>1,368,566</u>	<u>1,430,827</u>
Total Administrative Expenses	<u>\$2,678,738</u>	<u>\$2,796,941</u>

Schedule of Investment Expenses for the Year Ended June 30, 2003

	Investment Managers	Management Expense
South Dakota Investment Council		\$ 2,653,313
Dimensional Fund Advisors, Inc.		94,331
Acadian International		135,983
Blackstone Real Estate Partners		1,554,328
Apollo		1,148,935
Nicholas Applegate		423,128
DLJ Merchant Bankers		238,135
KKR		621,871
Crossroads		782,645
Silver Lake		566,979
Doughty Hanson		1,210,907
MW Post		2,335,948
Cypress Merchant Banking Partners L.P.		<u>984,173</u>
Total Investment Manager Expenses		<u>\$12,750,676</u>

ACTUARIAL SUMMARY



	Actuary's Opinion
	Actuarial Overview
	Actuarial Valuation
Summary of Benefit Changes and 2003 Actuarial Valuation	
	Plan Summary

ACTUARY'S OPINION



Human Resources & Investor Solutions

November 14, 2003

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

This report summarizes the results of Mellon Consultants, Inc.'s annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2003.

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, 2003 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 Mellon Consultants, Inc. 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. Mellon Consultants, Inc. 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, 2003. 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, 2003 is 97.2%.

SDRS is actuarially sound.

Respectfully Submitted,

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

Koren L. Holden, E.A.
Associate Principal, Retirement Actuary

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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 2003 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

	2002 Actuarial Valuation	2003 Actuarial Valuation
Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)	96.7%	97.2%
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 5 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 4.6 percent. This results in an Actuarial Investment Loss of \$142 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, 2003. The Reserve for Funding of Long-term Benefit Goals was reduced to a zero balance as a result of investment performance below expectations for fiscal year 2003.

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2003

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2003

Change due to Liability Experience	Present Value of All Benefits	Percentage of Present Value of All Benefits
Gain Due to Salary Increases	\$25M	.43%
Gain Due to Decrements	18M	.30%
Loss Due to New and Rehired Members	(4M)	(.07)%
Miscellaneous Gain	2M	.03%
Total Actuarial Liability Gain	\$41M	.71%

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.



SDRS gains and losses are allocated to the Reserve for Funding of Long-term Benefit Goals. The amounts currently in the reserve and remaining to be allocated in the next four years are an important indicator of the system's recent cumulative experience. The Reserve for Funding of Long-term Benefit Goals is a source of funds to provide future benefit improvements or to protect the system against future unfavorable experience.

Reserve for Funding Long-term Benefit Goals

The Reserve for Funding of Long-term Benefit Goals as of June 30, 2003 decreased as follows:

Cumulative balance as of June 30, 2002	\$ (28,991,700)
Fiscal year 2003 experience	(133,926,226)
Amortization of prior gains	106,164,316
Less present value of all benefits for improvements enacted into law funded from reserve	0
Cumulative balance as of June 30, 2003	\$ (56,753,610)
Reserve for Funding of Long-term Benefit Goals as of June 30, 2003	\$0

Sample Separation Rates

Age	Annual Rate per 100 Members				
	Mortality		Disablement		Female
	Male	Female	A ¹	B ²	
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

Actuarial Assumption Tables

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

¹ Judges, Teachers, Municipal and General Members

² Class B Public Safety Members

ACTUARIAL OVERVIEW (CONTINUED)

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

Benefit Changes

The June 30, 2003 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 2003 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

	2002 Actuarial Valuation Results	System Investment and Liability Experience for year ¹	Membership Changes and Maturity of System ²	2003 Actuarial Valuation Results
Normal Cost Rate with Expense Provision	11.528%	—	.139%	11.667%
Funding Period	20 years	—	—	20 Years
Actuarial Accrued Liability Funded Ratio	96.7%	—	.5%	96.7%

¹ All SDRS asset and liability gains and losses are smoothed and allocated directly to the Reserve for Funding of Long-term Benefit Goals.

² 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 2003, expressed as a percentage of payroll and total contributions, are based on the 2003 actuarial valuation and are summarized in the chart below.

	SDRS 2003 Funding Requirements	
	As a Percentage of Payroll	As a Percentage of Contributions
Matching Statutorily Required Employer/Member Contribution Rate	12.444% ³	100.0%
Entry Age Normal Contribution Rate at Mid-Period	11.343%	91.2%
Expense Allowance	.324%	2.6%
Total Funding Requirement Before Amortization of Frozen Unfunded Actuarial Accrued Liability	11.667%	93.8%
Contribution Rate Available to Amortize Frozen Unfunded Actuarial Accrued Liability as a Level Percent of Payroll	.777% ⁴	6.2%

The 2003 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 2003 Actuarial Valuation confirms that:

- a. The current benefit levels for active members including expenses require 94 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, 2003 are 12.444 percent of pay.

⁴ Will amortize Frozen Unfunded Actuarial Accrued Liability over 20 years from 2003.

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 2002 and 2003.

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 2003 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, 2003 has eliminated the positive balance in the Reserve for Funding of Long-term Benefit Goals resulting in a zero balance as of June 30, 2003.



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 2003 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, 2002	\$ 4,425,392,396
Contributions and Disbursements	
Contributions	152,795,728
Benefit Payments and Refunds	(200,613,434)
Administrative Expenses	<u>(2,796,941)</u>
Total	\$ (50,614,647)
Expected Investment Return	\$ 352,006,806
SDRS Liability Gain	\$ (40,893,785)
Projected Net Actuarial Value of Assets as of June 30, 2003	\$ 4,685,890,770
Present Value of All Benefits for Improvements Enacted into Law as of June 30, 2003 Funded From Reserve	<u>0</u>
Preliminary Actuarial Value of Assets as of June 30, 2003	\$ 4,685,890,770
Market Value of Assets as of June 30, 2003	\$ 4,784,187,048
Constraining Values	
80% of Market Value of Assets	\$ 3,827,349,638
120% of Market Value of Assets	\$ 5,741,024,458
Actuarial Value of Assets as of June 30, 2003	\$ 4,685,890,770

Development of the SDRS Actuarial Value of Assets

As of June 30, 2003

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
2003	4,818,943,695	4,685,890,770	97.2	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
2003	4,818,943,695	4,685,890,770	97.2	133,052,925	1,117.2	11.9

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)	(2)	(3)		(1)	(2)	(3) ¹
	Member Contributions	Current Retirees and Beneficiaries and Terminated Employees	Current Employees: Employer Financed				
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
2003	741,729,358	2,435,411,371	1,641,802,966	4,685,890,770	100.0	100.0	91.9

¹Indicates 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
2003	35,114	1,117.2	31,818	3.5

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
2003	15,893	1,112	564	16,441	191,738,495	11,662	5.7

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



Comparison of Actuarial Valuation Results

	2002 Valuation	2003 Valuation	Change
Active Members			
Number	35,130	35,114	0.0%
Average Age	44.4	44.7	0.7
Average Credited Service	10.6	10.8	1.9
Annual Compensation	\$1,080,060,341	\$1,117,250,026	3.4
Average Annual Compensation	\$30,745	\$31,818	3.5
Benefit Recipients			
RETIRED MEMBERS			
Number	13,053	13,546	3.8
Average Age	72.3	72.2	0.0
Total Annualized Benefits	\$155,922,246	\$171,004,624	9.7
Average Annualized Benefits	\$11,945	\$12,624	5.7
BENEFICIARIES			
Number	2,434	2,501	2.8
Total Annualized Benefits	\$15,348,949	\$16,651,770	8.5
Average Annualized Benefits	6,306	\$6,658	5.6
DISABILITIES			
Number	406	394	(3.0)
Total Annualized Benefits	\$4,068,618	\$4,082,101	0.3
Average Annualized Benefits	\$10,021	\$10,361	3.4
TOTAL BENEFIT RECIPIENTS			
Number	15,893	16,441	3.4
Total Annualized Benefits	\$175,339,813	\$191,738,495	9.7
Average Annualized Benefits	\$11,033	\$11,662	5.7
Terminated Members			
Number — Vested	5,714	6,193	8.4
Number — Non-Vested	5,748	6,186	7.6
Valuation Results			
Normal Cost (without expenses)	11.205%	11.343%	1.2
(with expenses)	11.528%	11.667%	1.2
Frozen Unfunded Actuarial			
Accrued Liability	\$151,556,414	\$133,052,925	(12.2)
Market Value of Assets	\$4,624,899,872	\$4,784,187,048	3.4
Actuarial Value of Assets	\$4,425,392,396	\$4,685,890,770	5.9
Actuarial Accrued Liability (AAL)	\$4,576,948,810	\$4,818,943,695	5.3
Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)			
	96.7%	97.2%	0.5
Projected Years to Fund Level Funding Requirements			
	20 Years	20 Years	N/A

SUMMARY OF BENEFIT CHANGES AND 2003 ACTUARIAL VALUATION RESULTS

Benefit Changes

There were no benefit improvements made to SDRS during the 2003 South Dakota legislative session. As a result, the SDRS benefit provisions remain unchanged from the 2002 actuarial valuation.

There were no changes in the actuarial assumptions since the 2002 actuarial valuation.

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 94.5 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, 2003 may be purchased at a cost of 75 percent of twice the Member Contribution rate in effect on July 1, 2002 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.

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

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 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.

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.

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

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.

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

Final Average Compensation

Employer Contributions

Member Contributions

Accumulated Contributions

Additional Contributions

Other Public Benefits

Cost-of-Living Adjustment (COLA)

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 year 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, 2003

INVESTMENT SUMMARY



Investment Analysis

The Investment Council

Investment Objectives and Policy

Prudent Man Standard

Performance

Real Rates of Return

Investment Managers

Schedule of Investment Management Expenses and Commissions

Summary of Investment Portfolios

Equity Profile

Bond Profile

Distribution Profile

Time-Weighted Rates of Return

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

The total fund return for FY 2003 was 5 percent. The Investment Council's benchmark return for FY 2003 was 5.4 percent. This capital market benchmark was 40 percent domestic equity, 16 percent international equity, 26 percent fixed income, 4 percent arbitrage, 7 percent real estate, 3 percent private equity and 3 percent cash. The 10-year annualized return was 9.5 percent versus the benchmark return of 8.6 percent.

The internal equity fund earned 0 percent in FY 2003 versus a benchmark return of 1 percent. The 10-year return for the internal equity fund was 10.3 percent versus a benchmark return of 9.9 percent.

SDRS' bond fund returned 14.4 percent in FY 2003 versus a benchmark return of 13.4 percent. The 10-year return for the internal bond fund was 7.8 percent versus a benchmark return of 7.5 percent.

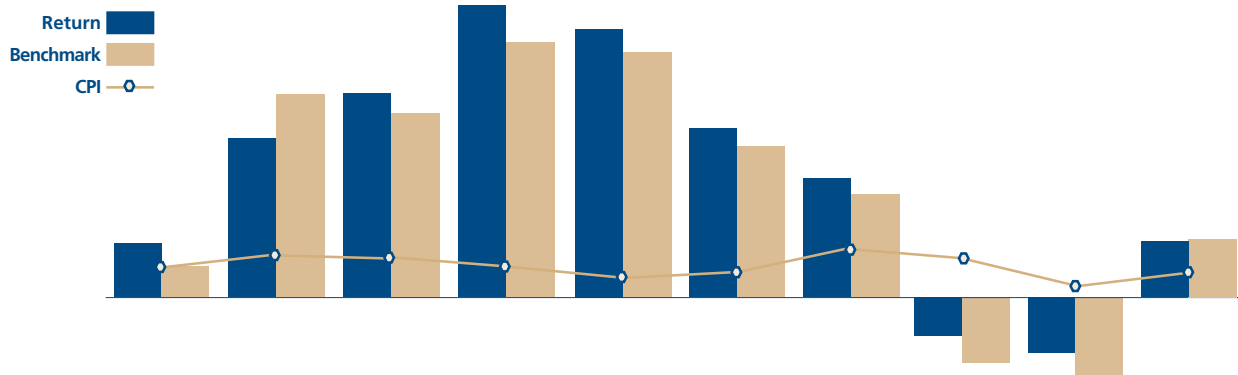
Returns earned by other portfolios and outside managers in FY 2003 (included in total fund returns) were: 8.5 percent Merger Arbitrage; 13.1 percent Convertible Arbitrage; (6.3) percent Internal International; 6.6 percent Acadian International; 7.1 percent Emerging Markets; 17.7 percent DFA; 10.6 percent 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.

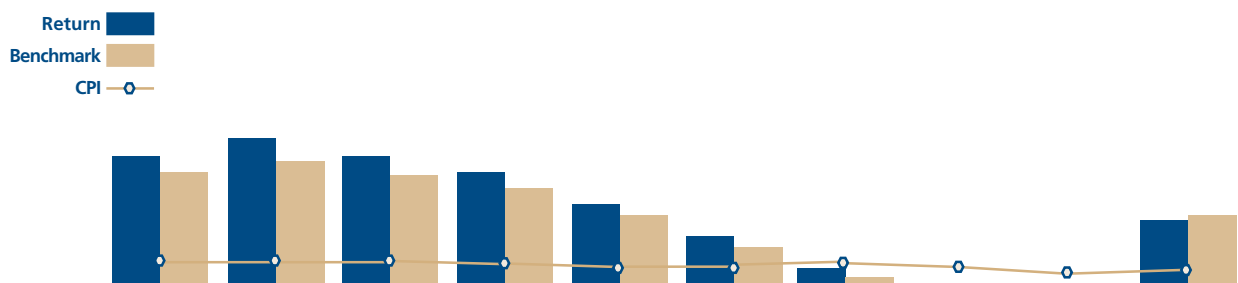
During FY 2003 inflation averaged 2.1 percent while SDRS' total return was 5 percent. Over the last 10 years, inflation has averaged 2.5 percent and total returns 9.5 percent, creating a real return of 7 percent.

Investment Performance Compared to Capital Market Benchmark and Inflation



	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
Investment Return	4.8%	14.1%	16.7%	21.3%	19.3%	14.6%	10.8%	-2.9%	-4.9%	5.0%
Benchmark	2.4%	16.9%	15.5%	18.9%	18.4%	13.3%	9.7%	-5.1%	-5.8%	5.4%
CPI	2.5%	3.0%	2.8%	2.5%	1.6%	2.0%	3.7%	3.2%	1.1%	2.1%

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



	FY94-03	FY95-03	FY96-03	FY97-03	FY98-03	FY99-03	FY00-03	FY01-03	FY02	FY03
Investment Return	9.5%	10.1%	9.6%	8.6%	6.6%	4.2%	1.8%	(1.0)%	(0.1)%	5.0%
Benchmark	8.6%	9.3%	8.4%	7.4%	5.6%	3.2%	0.8%	(2.0)%	(0.4)%	5.4%
CPI	2.5%	2.6%	2.5%	2.4%	2.4%	2.4%	2.5%	2.1%	1.6%	2.1%

INVESTMENT SUMMARY (CONTINUED)

Investment Managers

As of June 30, 2003, 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 (\$51.6 million), Acadian (\$56.7 million), Nicholas Applegate (\$27.2 million), and Dimensional Fund Advisors (\$26.6 million) invest in international equities. Blackstone (\$214.7 million), Doughty Hanson (\$14.3 million) and Apollo (\$67.2 million) invest in distressed real estate. DLJ Merchant Bankers (\$12.3 million), Capital International (\$7.3 million), AIG (\$21.2 million), KKR (\$16.4 million), Crossroads (\$57.1 million), Silver Lake (\$35.7 million) and Cypress (\$45.7 million) invest in private equity.

Schedule of Investment Management Expenses and Commissions for the Year Ended June 30, 2003

Schedule of Investment Management Expenses

Investment Managers	Management Expense
South Dakota Investment Council	\$ 2,653,312
Dimensional Fund Advisors, Inc.	94,331
Acadian International	135,983
Blackstone Real Estate Partners	1,554,328
Apollo Real Estate Investments	1,148,935
Nicholas Applegate	423,128
DLJ Merchant Bankers	238,135
KKR	621,871
Crossroads	782,645
Silver Lake	566,979
Doughty Hanson	1,210,907
MW Post	2,335,948
Cypress Merchant Banking Partners L.P.	234,173
Total Investment Manager Expenses	\$12,750,675

Summary of Broker Commissions¹

Investment Type	Commissions
Fixed Income	\$ 556,548
Equity	1,952,247
Internal Equity	513,565

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



Summary of Investment Portfolios

As of June 30, 2003

	Market Value	Future Positions	Exposure With Futures	Percentage with Futures Overlay On Cash Markets
Domestic Fixed Income				
Internal Domestic Fixed Income	\$1,172,914,162	\$ (65,923,130)	\$1,106,991,032	23.2%
Domestic Equity				
Internal Domestic Equity	\$1,458,446,072	\$ 518,934,785	\$1,977,380,857	41.5
International Equity				
Internal International Equity	\$ 641,763,727			
Acadian Management	56,716,921			
Dimensional Fund Advisors	26,577,739			
Capital International	51,583,199			
Nicholas Applegate Securities	<u>27,224,124</u>			
Total International Equity	\$ 803,865,710		\$ 803,865,710	16.9
Arbitrage Equity				
Internal Merger Arbitrage	\$ 64,651,103			
Internal Convertible Arbitrage	<u>186,098,333</u>			
Total Arbitrage Equity	\$ 250,749,437		\$ 250,749,437	5.2
Real Estate				
Blackstone Partnerships	\$ 214,673,073			
Apollo	67,229,187			
Doughty Hanson	<u>14,281,958</u>			
Total Real Estate	\$ 296,184,218		\$ 296,184,218	6.2
Private Equities				
KKR	\$ 16,423,837			
Crossroads	57,065,888			
Silverlake	35,652,181			
Cypress Associates, L.P.	45,672,264			
Capital International	7,314,675			
AIG	21,217,398			
DLJ Overseas Partners II	<u>12,279,184</u>			
Total Private Equities	\$ 195,625,427		\$ 195,625,427	4.1
Cash and Cash Equivalents				
Internal Shift	\$ 589,388,651	\$(453,011,655)	\$ 136,376,996	2.9
Total	\$4,767,173,677	\$ 0	\$4,767,173,677	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	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Price/Earnings Ratio	15.6	13.4	15.7	22.1	25	29.6	27.0	26.0	26.8	22.9
Dividend Yield	2.7%	2.7%	2.3%	1.6%	1.4%	1.4%	1.2%	1.4%	1.8%	1.9%
Price/Book Value Ratio	2.3	3.2	3.9	5.2	4.8	7.5	10.4	5.4	4.2	4.0
Beta	0.97	1.02	1.00	1.02	0.99	1.02	1.01	1.01	0.99	1.00

S&P 500 / Russell 1000

Price/Earnings Ratio	19.5	15.8	19.3	21.7	25.9	33.6	30.3	25.6	26.2	23.5
Dividend Yield	2.9%	2.5%	2.2%	1.7%	1.4%	1.2%	1.1%	1.3%	1.6%	1.7%
Price/Book Value Ratio	2.8	3.8	4.3	5.0	5.7	8.4	11.2	5.7	4.5	4.2

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	
Pfizer, Inc	3.9%
General Electric Co.	3.7%
Citigroup, Inc.	3.2%
Microsoft Corp.	2.4%
Bank of America Corp.	2.4%
Exxon Mobil Corp.	2.3%
Merck & Co., Inc.	2.2%
Wells Fargo & Co.	2.2%
Cisco Systems, Inc.	2.0%
American International Group, Inc.	1.8%
Total	26.1%

Distribution by Market Sector

Market Sector	SDRS Total Equity	Russell 1000
Business Equipment & Service	1.8%	3.8%
Capital Goods/Technology	17.1	17.3
Consumer Durables/Shelter	3.8	3.4
Consumer Non-Durables	6.1	8.3
Consumer Services/Retail	11.1	11.9
Energy	6.1	5.6
Financial Services	22.6	20.0
Health Care	15.0	15.5
Multi-Industry	4.4	3.9
Raw Materials	2.2	2.0
Transportation	0.7	1.2
Utilities	6.3	7.1
Cash Equivalents	2.8	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	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number of Issues	66	47	48	55	56	62	60	67	76	77
Average Coupon	6.26%	7.69%	6.76%	6.87%	6.84%	6.32%	6.23%	6.68%	6.41%	5.87%
Yield to Maturity	7.29%	7.28%	7.34%	7.36%	6.66%	7.09%	7.76%	7.01%	6.72%	4.73%
Average Maturity (Years)	7.98	9.27	6.58	7.68	8.51	7.70	6.88	7.02	8.40	7.46
Duration (Years) ¹	5.65	5.56	4.92	5.81	5.85	6.07	5.56	5.56	5.92	5.20
Average Quality ²	3.40	3.24	3.28	3.12	3.02	3.15	3.22	3.33	3.01	3.24
Cash Equivalent %	20.90%	14.00%	14.60%	0.40%	0.90%	2.20%	5.80%	0.50%	0.50%	4.70%

Lehman Aggregate Bond Index										
Number of Issues	6124	5167	5463	5799	6860	7180	5974	2912	3048	7454
Average Coupon	7.48%	7.41%	7.23%	7.20%	7.06%	6.74%	6.85%	6.75%	6.44%	6.00%
Yield to Maturity	7.41%	6.61%	6.95%	6.83%	6.14%	6.58%	7.24%	6.10%	5.21%	3.60%
Average Maturity (Years)	9.02	8.64	8.76	8.53	8.35	8.89	7.77	8.24	6.91	6.70
Duration (Years) ¹	5.18	5.09	5.15	5.27	5.37	5.54	4.91	4.74	4.54	3.90

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

Distribution Profile

Distribution by Duration

	Percent
0 to 2 years	32.8%
2 to 3 years	8.8
3 to 4 years	12.1
4 to 5 years	12.8
5 to 6 years	7.6
6 to 8 years	8.0
Above 8 years	17.9
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/Cash Equivalents	4.7%
AAA	52.3
AA	5.0
A	6.1
BAA	10.0
BA	17.6
B	2.5
CCC	1.8
Total	100.0%

Distribution by Coupon

	Percent
Cash/Cash Equivalents	4.7%
0.00% – 5.00%	20.3
5.01% – 6.00%	25.6
6.01% – 7.00%	23.1
7.01% – 8.00%	9.9
8.01% and over	16.4
Total	100.0%

Distribution by Issue

	Percent
Cash/Cash Equivalents	4.7%
U.S. Treasury/Agency	24.0
Mortgage Backed Securities	27.2
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 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997
TOTAL INVESTMENT FUND	4.8%	14.1%	16.7%	21.3%
Cash Equivalents	3.4	5.6	5.8	5.3
Investment Office Bond Fund	-0.1	14.1	5.9	9.9
Investment Office Equity Fund	4.8	21.8	28.1	33.2
Internal International	22.3	9.2	23.6	26.3
Arbitrage Convertible Fund	4.1	9.8	10.0	11.4
Arbitrage Merger Fund	15.3	12.2	17.6	18.8
International Composite	22.7	7.5	21.9	24.1
Global Equity Composite	6.7	18.9	27.1	31.7
INDICIES				
Bond Index				
Fixed Income Benchmark	-1.2	12.5	6.2	9.6
Equity Index				
Standard & Poor's 500	1.4	26.1	26.0	34.8
Russell 1000	0.7	25.5	26.3	32.3
International Index				
International Benchmark	17.6	5.3	13.7	16.3
Total Fund Benchmarks				
Russell/Mellon Total Bil \$ Funds	4.3	15.8	17.4	20.4
Capital Market Benchmark	2.4	16.9	15.5	18.9
Consumer Price Index	2.5	3.0	2.8	2.5

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1994 – 2003	Fiscal 1995 – 2003	Fiscal 1996 – 2003	Fiscal 1997 – 2003
TOTAL INVESTMENT FUND	9.5%	10.1%	9.6%	8.6%
Cash Equivalents	4.6%	4.8%	4.7%	4.5%
Investment Office Bond Fund	7.8%	8.7%	8.1%	8.4%
Investment Office Equity Fund	10.3%	10.9%	9.6%	7.2%
Arbitrage Convertible Fund	8.5%	9.0%	8.8%	8.7%
Arbitrage Merger Fund	13.6%	13.4%	13.5%	13.0%
Internal International	10.4%	9.2%	9.2%	7.3%
International Composite	9.2%	7.8%	7.8%	5.9%
Global Equity	10.3%	10.7%	9.8%	7.5%
INDICIES				
Bond Index				
Fixed Income Benchmark	7.5%	8.6%	8.1%	8.4%
Equity Index				
Standard & Poor's 500	10.1%	11.1%	9.4%	7.1%
Russel 1000	9.9%	11.0%	9.3%	7.1%
International Index				
International Benchmark	4.2%	2.8%	2.5%	1.0%
Total Fund Benchmarks				
Russell/Mellon Total Bil \$ Funds	8.9%	9.6%	8.8%	7.5%
Capital Market Benchmark	8.6%	9.3%	8.4%	7.4%
Consumer Price Index	2.5%	2.6%	2.5%	2.4%

Performance information prepared in compliance with AIMR performance presentation standards.

Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
19.3%	14.6%	10.8%	-2.9%	-4.9%	5.0%
5.6	5.1	5.7	6.0	2.5	1.4%
12.6	2.4	4.3	10.0	5.9	14.4%
32.5	19.0	11.3	-14.9	-18.3	0.0%
3.0	21.4	9.6	-3.0	4.2	(6.3%)
10.0	7.6	8.7	6.5	3.8	13.1%
21.8	16.5	18.4	6.2	2.1	8.5%
-3.4	21.1	11.0	-7.0	3.6	(3.5%)
25.6	19.5	10.9	-12.0	-12.2	(2.0%)
11.2	2.9	3.8	11.2	7.0	13.4%
30.3	22.7	7.4	-14.8	-18.0	0.3%
30.2	21.9	9.2	-15.0	-17.9	1.0%
10.5	6.2	16.4	-23.0	-8.4	4.6%
18.4	11.5	11.1	-5.8	-6.6	3.1%
18.4	13.3	9.7	-5.1	-5.8	5.4%
1.6	2.0	3.7	3.2	1.1	2.1%

Fiscal 1998 – 2003	Fiscal 1999 – 2003	Fiscal 2000 – 2003	Fiscal 2001 – 2003	Fiscal 2002 – 2003	Fiscal 2003
6.6%	4.2%	1.8%	-1.0%	-0.1%	5.0%
4.4%	4.1%	3.9%	3.3%	1.9%	1.4%
8.2%	7.3%	8.6%	10.0%	10.1%	14.4%
3.4%	-1.6%	-6.2%	-11.4%	-9.6%	0.0%
8.2%	7.9%	8.0%	7.7%	8.3%	13.1%
12.0%	10.2%	8.6%	5.6%	5.2%	8.5%
4.4%	4.7%	90.0%	-1.8%	-1.2%	-6.3%
3.2%	4.6%	80.0%	-2.4%	0.0%	-3.5%
3.9%	0.0%	-4.3%	-8.9%	-7.3%	-2.0%
8.1%	7.6%	8.8%	10.5%	10.1%	13.4%
3.1%	-1.6%	-6.9%	-11.2%	-9.3%	0.3%
3.4%	-1.2%	-6.3%	-11.0%	-9.0%	1.0%
-1.4%	-3.6%	-5.9%	-12.4%	-6.5%	-4.6%
5.3%	3.0%	0.9%	-2.8%	-1.6%	3.1%
5.6%	3.2%	0.8%	-2.0%	-0.4%	5.4%
2.4%	2.4%	2.5%	2.1%	1.6%	2.1%

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.

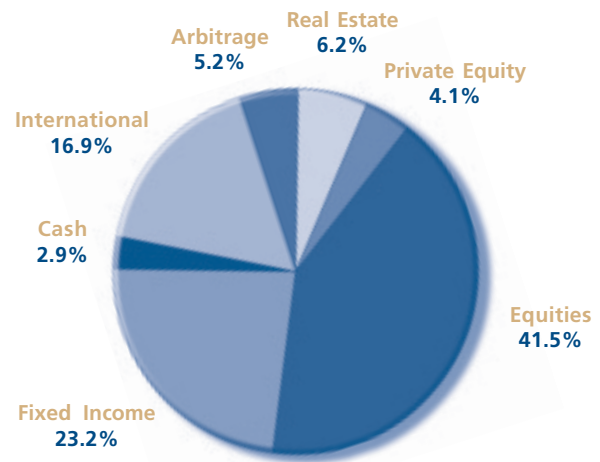
Four years ago, the Investment Office prepared two in-depth analyses for study by the Investment Council. The first dealt with the overall domestic equity-like characteristics that are implicit in a diversified portfolio, which invests in a variety of different asset categories. The analysis determined 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, 2003

	6/30/01	6/30/02	6/30/03
Equities	40.5%	41.0%	41.5%
Fixed Income	23.0	25.0	23.2
Cash	1.3	1.1	2.9
International	16.4	18.1	16.9
Arbitrage	9.4	4.7	5.2
Real Estate	5.7	6.4	6.2
Private Equity	3.7	3.7	4.1



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 35,114 total active members as of June 30, 2003.

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

Municipalities

Membership: 3,603

Percentage of Total Active

Members: 10.3%

Units: 140

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

Counties

Membership: 3,392

Percentage of Total Active

Members: 9.7%

Units: 63

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

Other Public Entities

Membership: 308

Percentage of Total Active

Members: 0.8%

Units: 73

MEMBERSHIP PROFILE (CONTINUED)

SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

County	FY 2003		County	FY 2003	
	Members Receiving Benefits	Annual Benefits ¹		Members Receiving Benefits	Annual Benefits ¹
Aurora	94	\$705	Hyde	32	273
Beadle	430	4,592	Jackson	34	438
Bennett	31	296	Jerauld	54	461
Bon Homme	226	2,104	Jones	28	285
Brookings	915	12,524	Kingsbury	96	999
Brown	804	9,973	Lake	311	3,688
Brule	104	1,021	Lawrence	544	6,433
Buffalo	2	8	Lincoln	204	2,185
Butte	190	1,760	Lyman	53	586
Campbell	43	343	Marshall	124	1,253
Charles Mix	173	1,687	McCook	67	771
Clark	92	701	McPherson	54	484
Clay	417	5,753	Meade	350	3,829
Codington	471	5,994	Mellette	33	265
Corson	28	363	Miner	65	574
Custer	198	2,249	Minnehaha	1,519	23,022
Davison	417	4,814	Moody	100	946
Day	144	1,470	Pennington	1,701	22,754
Deuel	94	620	Perkins	67	550
Dewey	54	560	Potter	77	759
Douglas	48	417	Roberts	160	1,431
Edmunds	70	733	Sanborn	65	580
Fall River	202	1,629	Shannon	9	76
Faulk	107	853	Spink	349	2,730
Grant	156	1,536	Stanley	105	1,407
Gregory	95	968	Sully	26	197
Haakon	40	369	Todd	33	335
Hamlin	99	1,143	Tripp	124	1,273
Hand	84	926	Turner	173	1,605
Hanson	33	296	Union	172	1,673
Harding	24	176	Walworth	166	1,838
Hughes	928	14,288	Yankton	580	5,999
Hutchinson	183	2,010	Ziebach	13	114

Total Benefits Payable by County 16,441 \$191,738

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	\$3,325	Texas	106	1,072
California	79	659	Washington	57	555
Colorado	92	942	Wyoming	71	579
Florida	67	816			
Iowa	120	993	Other States and Foreign Countries	556	5,470
Minnesota	264	2,448			
Nebraska	195	1,491			
North Dakota	75	652			

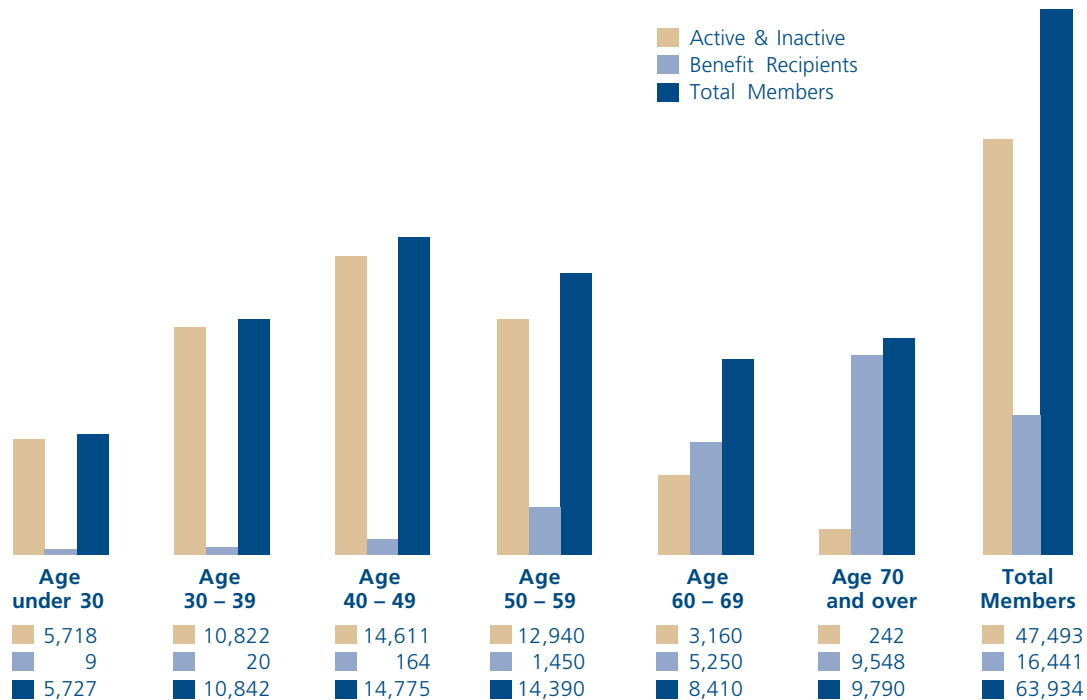
Total Benefits Payable Outside South Dakota 1,955 \$ 19,002

Total Benefit Recipients and Benefits Payable 16,441 \$191,738

¹ In thousands

² Total represents the annualized benefits payable as of July 1, 2003.

Membership by Age



County	Total Members	County	Total Members	County	Total Members
Aurora	303	Faulk	302	Mellette	215
Beadle	1,298	Grant	479	Miner	205
Bennett	148	Gregory	377	Minnehaha	6,739
Bon Homme	750	Haakon	184	Moody	437
Brookings	3,722	Hamlin	472	Pennington	6,894
Brown	2,902	Hand	245	Perkins	232
Brule	431	Hanson	169	Potter	245
Buffalo	10	Harding	113	Roberts	632
Butte	792	Hughes	4,031	Sanborn	228
Campbell	146	Hutchinson	568	Shannon	130
Charles Mix	714	Hyde	130	Spink	1,266
Clark	327	Jackson	158	Stanley	551
Clay	1,884	Jerauld	179	Sully	148
Codington	1,878	Jones	114	Todd	484
Corson	225	Kingsbury	464	Tripp	549
Custer	808	Lake	1,051	Turner	610
Davison	1,287	Lawrence	2,158	Union	790
Day	484	Lincoln	914	Walworth	542
Deuel	340	Lyman	256	Yankton	2,197
Dewey	343	Marshall	408	Ziebach	102
Douglas	220	McCook	327	Out of State	<u>5,848</u>
Edmunds	253	McPherson	189		
Fall River	747	Meade	1,590		

Total Membership 63,934

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	696	251	947	257	183	440	1,387
Male	980	272	1,252	340	165	505	1,757
Total	1,676	523	2,199	597	348	945	3,144
County General							
Female	1,076	411	1,487	239	261	500	1,987
Male	1,026	326	1,352	155	202	357	1,709
Total	2,101	737	2,839	394	463	857	3,696
County Public Safety							
Female	75	46	121	5	21	26	147
Male	320	183	503	36	35	71	574
Total	395	229	624	41	56	97	721
Judicial							
Female	10	0	10	0	0	0	10
Male	41	4	45	3	0	3	48
Total	52	3	55	3	0	3	58
Municipal General							
Female	885	313	1,198	198	322	520	1,718
Male	1,350	374	1,724	157	207	364	2,088
Total	2,235	687	2,922	355	529	884	3,806
Municipal Public Safety							
Female	23	8	31	4	5	9	40
Male	544	190	734	27	51	78	812
Total	567	198	765	31	56	87	852
Public School & Board of Regent Classified							
Female	3,777	1,442	5,219	1,080	1,775	2,855	8,074
Male	1,344	557	1,901	274	636	910	2,811
Total	5,121	1,999	7,120	1,354	2,411	3,765	10,885
State General							
Female	2,730	921	3,651	605	690	1,295	4,946
Male	2,417	673	3,090	447	432	879	3,969
Total	5,147	1,594	6,741	1,052	1,122	2,174	8,915
State Public Safety and Penitentiary							
Female	102	46	148	8	39	47	195
Male	542	148	690	41	84	125	815
Total	644	194	838	49	123	172	1,010
Teachers							
Female	7,074	897	7,971	1,687	784	2,471	10,442
Male	2,658	382	3,040	630	294	924	3,964
Total	9,732	1,279	11,011	2,317	1,078	3,395	14,406
Grand Total							
Female	16,448	4,335	20,783	4,083	4,080	8,163	28,946
Male	11,222	3,109	14,331	2,110	2,106	4,216	18,547
Total	27,670	7,444	35,114	6,193	6,186	12,379	47,493



Benefit Recipients by Group

	Retirement Benefits		Disability Benefits		Survivor Benefits		Total Benefits	
	2002	2003	2002	2003	2002	2003	2002	2003
Boards of Regents								
Male	681	717	6	5	9	9	696	731
Female	217	227	6	6	167	173	390	406
Total	898	944	12	11	176	182	1,086	1,137
County General								
Male	477	495	46	46	39	41	562	582
Female	525	552	16	14	273	277	814	843
Total	1,002	1,047	62	60	312	318	1,376	1,425
County Public Safety								
Male	83	99	4	5	1	1	88	105
Female	7	7	0	0	15	17	22	24
Total	90	106	4	5	16	18	110	129
Judicial								
Male	30	29	0	0	0	0	30	29
Female	1	1	0	0	16	18	17	19
Total	31	30	0	0	16	18	47	48
Municipal General								
Male	499	515	31	31	21	22	551	568
Female	313	321	11	10	243	239	567	570
Total	812	836	42	41	264	261	1,118	1,138
Municipal Public Safety								
Male	288	303	23	19	0	0	311	322
Female	2	2	3	3	60	62	65	67
Total	290	305	26	22	60	62	376	389
Public School & Board of Regents Classified								
Male	627	641	35	33	87	93	749	767
Female	1,575	1,631	38	33	236	246	1,849	1,910
Total	2,202	2,272	73	66	323	339	2,598	2,677
State General								
Male	1,430	1,475	53	50	82	87	1,565	1,612
Female	1,273	1,306	52	53	604	607	1,929	1,966
Total	2,703	2,781	105	103	686	694	3,494	3,578
State Public Safety and Penitentiary								
Male	209	221	8	6	1	1	218	228
Female	7	8	1	1	35	36	43	45
Total	216	229	9	7	36	37	261	273
Teachers								
Male	1,536	1,617	22	22	229	236	1,787	1,875
Female	3,272	3,379	52	57	316	336	3,640	3,772
Total	4,808	4,996	74	79	545	572	5,427	5,647
Grand Total								
Male	5,860	6,112	228	217	469	490	6,557	6,819
Female	7,192	7,434	179	177	1,965	2,011	9,336	9,622
Total	13,052	13,546	407	394	2,434	2,501	15,893	16,441

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	1998	1999	2000	2001	2002	2003
Board of Regents	902	931	973	1,024	1,086	1,137
County General	1,225	1,292	1,330	1,368	1,376	1,425
County Public Safety	82	88	95	100	110	129
Judicial	48	49	47	45	47	48
Municipal General	996	1,029	1,058	1,077	1,118	1,138
Municipal Public Safety	319	327	346	355	376	389
Public School & Board of Regents Classified	2,230	2,283	2,393	2,474	2,598	2,677
State General	3,196	3,239	3,336	3,433	3,494	3,578
State Public Safety & Penitentiary	244	254	229	244	261	273
Teachers	4,824	4,880	5,121	5,270	5,427	5,647
Total Benefit Recipients	14,066	14,372	14,928	15,390	15,893	16,441
Total Benefits Paid During Period	\$100,699,600	\$113,705,428	\$133,775,649	\$153,192,955	\$166,265,639	\$200,613,434
Average Benefits Paid During Period	\$7,159	\$7,912	\$8,961	\$9,954	\$10,462	\$12,202

Active and Inactive Members

Group	1998	1999	2000	2001	2002	2003
Board of Regents	2,781	2,798	2,830	2,882	2,998	3,144
County General	3,369	3,460	3,608	3,675	3,615	3,696
County Public Safety	371	366	425	483	641	721
Judicial	57	57	58	61	58	58
Municipal General	3,283	3,299	3,409	3,613	3,740	3,806
Municipal Public Safety	739	750	750	778	806	852
Public School & Board of Regents Classified	8,342	8,772	9,446	10,075	10,582	10,885
State General	7,938	8,054	8,254	8,550	8,874	8,915
State Public Safety & Penitentiary	952	919	969	972	986	1,010
Teachers	13,525	13,650	13,863	14,114	14,292	14,406
Total Active and Inactive Members	41,357	42,125	43,612	45,203	46,592	47,493

Benefits and Expenses by Type

	Retirement Benefits	Disability Benefits	Survivor Benefits	Refund Benefits	Total Benefits	Administrative Expenses
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
Fiscal Year 2003	161,214,537	4,126,182	15,934,568	19,338,147	200,613,434	2,796,941

Revenue by Source

	Employee Contributions	Employer Contributions	Total Contributions	Investment Income	Total Revenue
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)
Fiscal Year 2003	80,806,420	71,989,308	152,795,728	209,901,823	362,697,551



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.

2003



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

**A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2003**

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 2003 HIGHLIGHTS

Total Membership	63,934
Active Contributing Members	35,114
Inactive Non-Contributing Members	12,379
Benefit Recipients	16,441
Net Assets Held in Trust for Pension Benefits	\$4,784,187,048
Actuarial Value of Assets	\$4,683,899,861
Actuarial Accrued Liability (AAL)	\$4,816,952,786
Investment Return	5.0%
<u>Benefits and Refunds Paid</u>	
Benefits Paid	\$ 181,275,287
Refunds Paid	<u>19,338,147</u>
Total	\$ 200,613,434
<u>Contributions</u>	
Member	\$ 80,803,420
Employer	<u>71,989,308</u>
Total	\$152,795,728
Funding Period	20 years
Funded Ratio (Actuarial Value of Assets/AAL)	97.2%