NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Financial Statements and Supplementary Information

March 31, 2011

(With Independent Auditors' Report Thereon)

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

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Independent Auditors' Report

The Trustee
New York State and Local Retirement System:

We have audited the accompanying statement of plan net assets of the New York State and Local Retirement System (the System) as of March 31, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 present fairly, in all material respects, the plan net assets of the New York State and Local Retirement System as of March 31, 2011, and changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 11, 2011, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information as listed in the accompanying table of contents are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System. The accompanying additional supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

July 11, 2011

The following overview of the financial activity of the New York State and Local Retirement System (the System) for the fiscal year ended March 31, 2011 is intended to provide the reader with an analysis of the System’s overall financial position. This Management’s Discussion and Analysis should be read in conjunction with the basic financial statements of the System, which follow.

Financial Highlights

- The net assets of the System held in trust to pay pension benefits were $149.549 billion as of March 31, 2011. This amount reflects an increase of $15.297 billion from the prior fiscal year. This change is primarily the result of the net appreciation of the fair value of the investment portfolio. Investment appreciation for the fiscal years ended March 31, 2011 and 2010 is $16.741 billion and $25.631 billion, respectively.
- The System’s funding objective is to meet long-term benefit obligations through member and employer contributions and investment earnings. The funded ratio is the ratio of actuarially determined assets against actuarial liabilities. The funded ratio for April 1, 2010 is: Employees’ Retirement System (ERS) 93.9%, Police and Fire Retirement System (PFRS) 96.7%.
- Retirement and death benefits paid this year totaled $8.465 billion to 385,031 annuitants as compared to $7.663 billion to 375,803 annuitants for last year. The increase is due to the number of new retirees.
- Contributions from employers increased from $2.344 billion last year to $4.165 billion this year. The increase is due to the change in the employer billing rates and costs associated with the 2010 retirement incentives.
- The System’s investments reported a total positive return of 14.6% for the current year and a positive return of 25.9% for last year.

Overview of the Financial Statements

The financial statements consist of the statement of plan net assets, statement of changes in plan net assets, and the notes to the financial statements. The required supplementary information that appears after the notes to the financial statements is not a required part of the financial statements, but represents supplementary information required by the Governmental Accounting Standards Board. The additional supplementary information following the required supplementary information is also not required, but management has chosen to include such information.

The statement of plan net assets reflects the resources available to pay members, retirees, and beneficiaries at the close of the System’s fiscal year. This statement also provides information about the fair value and composition of net assets.

The statement of changes in plan net assets presents the changes to the System’s net assets for the fiscal year, including investment income, net appreciation or depreciation in fair value of the investment portfolio, and contributions from members and employers. Benefits and administrative expenses paid by the System are included under the deductions section of the statement.

(Continued)

The notes to the financial statements are an integral part of the basic financial statements and provide additional information about the plans of the System. Notes include a plan description, significant accounting policies, contributions, funding policy, System reserves, investment risk disclosure, derivatives, securities lending program, federal income tax status, commitments, and contingencies.

The required supplementary schedules include information about funding progress using the entry age normal funding method to approximate the funding status of the System. The aggregate actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities, is utilized by the System for funding purposes. In addition, employer contributions for the current year and the previous five years are reported.

The additional supplementary information includes schedules of administrative expenses, investment expenses, and consulting fees.

Analysis of Overall Financial Position of the System

The purpose of the System's investments is to provide for long-term growth, while also ensuring a reliable cash flow that meets the funding requirements of the near-term pension obligation. To achieve these goals, the investments are efficiently allocated to a variety of asset types and strategies in order to meet the current funding needs and future growth requirements of the pension liability. Equity related investments are included for their long-term return and growth characteristics, while fixed income and debt related investments are included in the allocation for their ability to control investment risk and provide for a reliable cash flow that meets the funding requirements of the pension payments. It is important to note that the change from year to year is due not only to changes in fair values, but also to purchases, sales, and redemptions. Tables 1, 2, and 3 summarize and compare financial data for the current and prior years.

Table 1

Summary schedule of plan net assets as of March 31, 2011, as compared to March 31, 2010, follows:

	2011	2010	Dollar change	Percentage change
		(In Thousands)		
Assets:				
Investments	$ 147,237,006	$ 132,500,204	$ 14,736,802	11.1%
Securities lending collateral – invested	7,498,089	9,150,888	(1,652,799)	(18.1)
Receivables and other assets	4,179,904	3,508,556	671,348	19.1
Total assets	158,914,999	145,159,648	13,755,351	9.5
Liabilities:				
Securities lending obligations	7,678,952	9,335,281	(1,656,329)	(17.7)
Payables and other liabilities	1,687,496	1,572,635	114,861	7.3
Total liabilities	9,366,448	10,907,916	(1,541,468)	(14.1)
Net assets held in trust for pension benefits	$ 149,548,551	$ 134,251,732	$ 15,296,819	11.4%

The plan net assets of the System totaled $149.549 billion as of March 31, 2011, an increase of $15.297 billion from the prior fiscal year.

Table 2

Schedule of invested assets as of March 31, 2011, as compared to March 31, 2010, follows:

	2011	2010	Dollar change	Percentage change
		(In Thousands)		
Short-term investments	$ 8,360,235	$ 3,086,085	$ 5,274,150	170.9%
Government bonds	21,417,207	24,105,872	(2,688,665)	(11.2)
Corporate bonds	9,620,648	9,620,194	454	—
Domestic equity	55,720,380	51,495,373	4,225,007	8.2
International equity	24,224,573	21,178,608	3,045,965	14.4
Private equity	14,915,133	12,799,735	2,115,398	16.5
Absolute return strategy investments	4,496,551	3,817,538	679,013	17.8
Real estate and mortgage loans	8,482,279	6,396,799	2,085,480	32.6
Total investments	$ 147,237,006	$ 132,500,204	$ 14,736,802	11.1%

(Continued)

The largest percentage increases to the invested assets were in short-term investments and real estate and mortgage loans, which represent 5.7% and 5.8% of the portfolio, respectively. The increase in short-term investments and the decrease in government bonds are primarily related to Fund rebalancing initiatives. Increases in domestic and international equity, which represent 37.8% and 16.5% of the portfolio, respectively, collectively increased $7.271 billion from the previous year.

Table 3

Summary schedule of changes in plan net assets for the year ended March 31, 2011, as compared to the year ended March 31, 2010, follows:

	2011	2010	Dollar change	Percentage change
		(In Thousands)		
Additions:				
Net investment income	$ 19,339,896	$ 28,422,361	$ (9,082,465)	(32.0)%
Total contributions	4,578,479	2,710,494	1,867,985	68.9
Total additions	23,918,375	31,132,855	(7,214,480)	(23.2)
Deductions:				
Total benefits paid	(8,520,223)	(7,718,872)	(801,351)	10.4
Administrative expenses	(101,333)	(100,029)	(1,304)	1.3
Total deductions	(8,621,556)	(7,818,901)	(802,655)	10.3
Net increase	15,296,819	23,313,954	(8,017,135)	(34.4)
Net assets held in trust for pension benefits – beginning of year	134,251,732	110,937,778	23,313,954	21.0
Net assets held in trust for pension benefits – end of year	$ 149,548,551	$ 134,251,732	$ 15,296,819	11.4%

The change in net investment income is primarily attributable to the positive change in the value of the domestic and international equity portfolios. The increase in total contributions is attributable to the change in employer billing rates and costs associated with retirement incentives.

Economic Factors and Rates of Return

The Common Retirement Fund posted strong investment performance during the 2010-11 fiscal year, with a net gain of 14.6%. This was the second year of positive performance following the fiscal crisis of 2008-09. All asset classes contributed to the positive Fund performance, with domestic equity returning 17.7%, international equity returning 13.4%, private equity returning 18.9%, real estate returning 26.7%, absolute return strategies returning 6.0%, fixed income returning 8.0%, and treasury inflation protected securities (TIPS) returning 9.7%.

The U.S. economy was again bolstered by the Federal Reserve's second round of quantitative easing announced in August 2010, at a level of $600 billion, overcoming market fears regarding sovereign debt in Europe. The U.S. economy showed fairly modest growth, hampered by serious concerns about unemployment and housing foreclosures. Corporate profits showed solid strength but the near-term outlook remains uncertain.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244-0001. The report can also be accessed on the Comptroller's website at **www.osc.state.ny.us/pension/cafr.htm.**

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Statement of Plan Net Assets

March 31, 2011

(In Thousands)

	Employees' Retirement System	Police and Fire Retirement System	Total
Assets:			
Investments (notes 2, 5, and 6):			
Short-term investments	$ 7,099,939	$ 1,260,296	$ 8,360,235
Government bonds	18,188,588	3,228,619	21,417,207
Corporate bonds	8,170,347	1,450,301	9,620,648
Domestic equity	47,320,597	8,399,783	55,720,380
International equity	20,572,747	3,651,826	24,224,573
Private equity	12,666,694	2,248,439	14,915,133
Absolute return strategy investments	3,818,701	677,850	4,496,551
Real estate and mortgage loans	7,203,585	1,278,694	8,482,279
Total investments	125,041,198	22,195,808	147,237,006
Securities lending collateral – invested (note 7)	6,367,761	1,130,328	7,498,089
Forward foreign exchange contracts (note 6)	651,411	115,631	767,042
Receivables:			
Employers' contributions	1,215,537	129,427	1,344,964
Members' contributions	7,934	35	7,969
Member loans	1,064,266	1,848	1,066,114
Accrued interest and dividends	355,303	63,069	418,372
Investment sales	197,795	35,110	232,905
Other (note 2)	252,810	63,667	316,477
Total receivables	3,093,645	293,156	3,386,801
Capital assets, at cost, net of accumulated depreciation	22,132	3,929	26,061
Total assets	135,176,147	23,738,852	158,914,999
Liabilities:			
Securities lending obligations (note 7)	6,521,359	1,157,593	7,678,952
Forward foreign exchange contracts (note 6)	655,661	116,385	772,046
Accounts payable – investments	303,594	53,890	357,484
Accounts payable – benefits	355,128	32,193	387,321
Other liabilities (note 2)	148,511	22,134	170,645
Total liabilities	7,984,253	1,382,195	9,366,448
Net assets held in trust for pension benefits	$ 127,191,894	$ 22,356,657	$ 149,548,551

See accompanying notes to financial statements.

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended March 31, 2011

(In Thousands)

	Employees' Retirement System	Police and Fire Retirement System	Total
Additions:			
Income from investing activities:			
Net appreciation in fair value of investments	$ 14,219,167	$ 2,521,388	$ 16,740,555
Interest income	1,212,030	214,911	1,426,941
Dividend income	1,077,884	191,125	1,269,009
Other income	273,224	48,446	321,670
Less investment expenses	(379,561)	(67,302)	(446,863)
Total income from investing activities	16,402,744	2,908,568	19,311,312
Income from securities lending activities:			
Securities lending income	26,610	4,718	31,328
Securities lending rebates	365	65	430
Securities lending management fees	(2,696)	(478)	(3,174)
Total income from securities lending activities	24,279	4,305	28,584
Total net investment income	16,427,023	2,912,873	19,339,896
Contributions:			
Employers	3,622,638	541,933	4,164,571
Members	284,486	1,713	286,199
Interest on accounts receivable	28,559	8,627	37,186
Other	73,171	17,352	90,523
Total contributions	4,008,854	569,625	4,578,479
Total additions	20,435,877	3,482,498	23,918,375
Deductions:			
Benefits paid:			
Retirement benefits	(6,978,582)	(1,293,680)	(8,272,262)
Death benefits	(179,301)	(12,964)	(192,265)
Other, net	(55,981)	285	(55,696)
Total benefits paid	(7,213,864)	(1,306,359)	(8,520,223)
Administrative expenses	(87,760)	(13,573)	(101,333)
Total deductions	(7,301,624)	(1,319,932)	(8,621,556)
Net increase	13,134,253	2,162,566	15,296,819
Net assets held in trust for pension benefits – beginning of year	114,057,641	20,194,091	134,251,732
Net assets held in trust for pension benefits – end of year	$ 127,191,894	$ 22,356,657	$ 149,548,551

See accompanying notes to financial statements.

(1) Description of Plans

The Comptroller of the State of New York serves as sole trustee of the New York State Common Retirement Fund (the Fund) and administrative head of the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), and the Public Employees' Group Life Insurance Plan (GLIP). GLIP provides death benefits in the form of life insurance. These entities are collectively referred to as the New York State and Local Retirement System (the System). All net assets of the System are held in the Fund, which was established to hold all net assets and record changes in plan net assets allocated to the System. In these statements, GLIP amounts are apportioned to and included in ERS and PFRS.

System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL) and are guaranteed by the New York State (the State) Constitution. Once a public employer elects to participate in the System, the election is irrevocable. The System cannot be terminated, and plan benefits cannot be diminished or impaired. Benefits can be reduced for future members only by an act of the State Legislature.

Generally, members of the System are employees of the State and its municipalities, other than New York City.

ERS and PFRS are cost-sharing multiple-employer defined benefit pension plans. The System is included in the State's financial report as a pension trust fund.

As of March 31, 2011 and 2010, the number of participating employers for ERS and PFRS consisted of the following:

	2011 ERS	2010 ERS	2011 PFRS	2010 PFRS
State	1	1	1	1
Counties	57	57	4	4
Cities	61	61	61	61
Towns	911	910	205	205
Villages	492	492	376	376
Schools	700	700	—	—
Miscellaneous	794	790	34	34
Total	3,016	3,011	681	681

(Continued)

As of March 31, 2011 and 2010, the System membership for ERS and PFRS consisted of the following:

	2011 ERS	2010 ERS	2011 PFRS	2010 PFRS
Retirees and beneficiaries currently receiving benefits	353,940	345,106	31,091	30,697
Active members	513,092	529,466	31,659	32,449
Inactive members	124,829	114,409	3,143	2,893
Total members and benefit recipients	991,861	988,981	65,893	66,039

(a) Membership Tiers

Pension legislation enacted in 1973, 1976, 1983, and 2009 established distinct classes of membership. For convenience, the System uses a tier concept to distinguish these groups, generally:

Tier 1 – ERS – Those persons who last became members before July 1, 1973; or PFRS – before July 31, 1973.

Tier 2 – ERS – Those persons who last became members on or after July 1, 1973, but before July 27, 1976; or PFRS – those persons who became members on or after July 31, 1973, but before July 1, 2009.

Tier 3 – ERS – Generally, those persons who are State correction officers who last became members on or after July 27, 1976, but before January 1, 2010, and all others who last became members on or after July 27, 1976, but before September 1, 1983; or PFRS – those persons who became members on or after July 1, 2009, but before January 9, 2010.

Tier 4 – ERS – Generally, except for correction officers, those persons who last became members on or after September 1, 1983, but before January 1, 2010.

Tier 5 – ERS – Generally, those persons who first became members on or after January 1, 2010; or PFRS – those persons who became members on or after January 9, 2010 or were previously PFRS Tier 3 members who elected to become Tier 5.

Vesting – Members who joined the System prior to January 1, 2010 need five years of service to be 100% vested. Members who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) need ten years of service credit to be 100% vested.

(b) Benefits

Tier 1 and Tier 2

Most Tier 1 and Tier 2 members are in a plan with a minimum retirement age of 55, which provides for 1.67% of final average salary for each year of service less than 20 years. Generally, the benefit with more than 20 years is 2% of final average salary for each year of service. Tier 2 members retiring between ages 55 and 62 with less than 30 years of service receive reduced benefits. As a result of Article 19 of the RSSL, eligible Tier 1 and Tier 2 members, whose date of membership is prior to July 27, 1976, will receive an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 months.

Tiers 3, 4, and 5

Except for Tier 3 and 5 correction officers, generally, the benefit is 1.67% of final average salary for each year of service if the service is less than 20 years. For 20 to 30 years of service, the benefit is 2% of final average salary for each year of service. An additional benefit of 1.5% of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members must be age 62 with five years of service or at least age 55 with 30 years of service to retire with full benefits. Reduced retirement benefits are available if retirement occurs between ages 55 and 62. Tier 5 members, with the exception of Uniformed Court Officers and Peace Officers employed by the Unified Court System, must be age 62 with at least 10 years of service to retire with full benefits.

Special Plans

The 25-Year Plans allow a retirement after 25 years of service with a benefit of one-half of final average salary, and the 20-Year Plans allow a retirement after 20 years of service with a benefit of one-half of final average salary. These plans are available to certain PFRS members, sheriffs, and correction officers.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 members and Tier 2 ERS members, the benefit is a pension of 75% of final average salary with offset for any workers' compensation benefits received. For Tier 1 and Tier 2 PFRS members, the benefit is a pension of 75% of final average salary with offset for any workers' compensation benefits received. The Tier 3 and Tier 4 ERS benefit is the ordinary benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first $50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times salary. For most members, there is also a reduced post-retirement ordinary death benefit.

Post-retirement Benefit Increases

A cost-of-living adjustment is provided to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; and (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed $18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared using the accrual basis of accounting. Revenue is recognized when earned, and liabilities are recognized when incurred. Employer contributions are recognized when due, pursuant to statutory requirements and formal commitments. Member contributions are based on when member salaries are earned and are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment sales and purchases are recorded on a trade-date basis. The amounts shown on the financial statements are allocated between ERS and PFRS based on each system's monthly average equity in the Fund.

(b) Method Used to Value Investments

Investments are reported at fair value. Fair value is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future and changes could materially affect the amounts reported.

Stocks traded on a national or international exchange are reported at current quoted market values.

Bonds are primarily reported at fair values obtained from independent pricing services.

Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments.

Direct investments in real estate are valued based on independent appraisals made every three years or according to the fund agreement.

Real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparative sales, capitalization rates applied to net operating income, or cost, if none of the preceding fit a property's attributes and strategy.

Private equity and absolute return strategy investments are reported at fair value as determined by the investment manager. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, requires private equity investment managers to value nonpublic traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. Fair value is determined using the best information available for a hypothetical transaction at the measurement date, not using forced sale or fire-sale pricing.

The Fund trades in foreign exchange contracts in the normal course of its investing activities in order to manage exposure to market risks. Such contracts, which are generally for a period of less than one year, are used to purchase and sell foreign currency at a guaranteed future price. These contracts are recorded at market value using foreign currency exchange rates.

(c) Member Loan Programs

Members are entitled to participate in a loan program that allows them to borrow up to 75% of their member contributions. Repayment of outstanding amounts is generally made through payroll deductions within five years. The interest rate charged for member loans is fixed at 1% below the actuarial interest rate at the time the loan is granted. The loan rate for loans issued during the fiscal year ended March 31, 2011 was 7%.

(d) Benefits Payable

Benefits payable represent payments due on account of death and retirement on or before March 31, 2011, for which final calculations had not been completed and paid as of that date.

(e) Other Receivables

Included in other receivables at March 31, 2011 is a promissory note in the amount of $245.12 million from a real estate investment settlement that was due and payable in 2013. On June 22, 2011, this note was paid in full.

(f) Other Liabilities

Other liabilities include a cash managed balance, which represents disbursements issued on previous business days, which are funded when presented for payment at the issuing bank. Other liabilities total $170.64 million, of which $88.01 million represents outstanding checks. In addition, tax withholding payments due to the Internal Revenue Service total $63.83 million.

(g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statement of plan net assets. Because of the inherent uncertainty in privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed, and the difference can be material. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

(h) Recent Accounting Pronouncements

Effective March 31, 2010, the System adopted the Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement provides authoritative guidance related to the accounting and financial reporting of intangible assets, including internally generated software. Additional disclosures resulting from the implementation of this statement are presented in the Capital Assets section of this note.

The System implemented the provisions of GASB Statement No. 53, *Accounting for Derivative Instruments*, effective for fiscal year ended March 31, 2011. This statement establishes uniform financial reporting standards for derivative instruments. Additional disclosures resulting from the implementation of this statement are presented in Note (6).

(i) Other Income

Included in other income is $32.9 million, which represents amounts received from settlements by the Attorney General of the State of New York pursuant to the Martin Act. There may be future settlements; however, amounts are unknown and management of the System believes there will be no material effect on the basic financial statements.

(j) Capital Assets

Capital assets are capitalized at cost and depreciated on a straight-line basis over the related assets' estimated useful lives.

During the fiscal year ended March 31, 2011, the System began capitalizing outlays associated with its data imaging, filing, and storage system. This project is currently ongoing and is expected to be completed in fiscal year ending 2017, at which time amortization of the capitalized costs will begin.

(k) Contributions Required

Participating employers are required under RSSL to contribute annually to the System. Annual bills for employer contributions accrue interest at the actuarial interest rate applicable during the year. For fiscal year ended March 31, 2011, the applicable interest rate was 8%.

(l) System Expenses

The System receives an allocation from employer contributions, which are designated by law to cover all noninvestment-related operating expenses. Investment expenses are offset directly by investment income.

(m) Required Contribution Rates

Tier 3, 4, and 5 members must contribute 3% of their salary. As a result of RSSL Article 19, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with the System, are not required to contribute. Less than 1% of other members are contributory. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began.

(n) Retirement Incentives

During the fiscal year ended March 31, 2011, retirement incentives were offered to members of ERS under RSSL Chapter 105 of the Laws of 2010. This legislation allows for either a lump-sum payment from employers or a five year amortization. The estimated contribution receivable from participating employers and the State is included in the Contributions Receivable note below.

(o) Contributions Receivable

Employers' contributions receivable are presented net of withdrawals, refunds, advance employer payments, and credits due employers. Receivable amounts from participating employers include $293.37 million for amortization of retirement incentives, new plan adoptions, and retroactive membership. Receivable amounts from the State for other amortizations total $323.21 million.

RSSL Chapter 260 of the Laws of 2004 authorized employers to amortize over ten years, at 5% interest, the portion of their annual bill for fiscal year ended 2005 that exceeded 7% of payroll. The amortized amount receivable from the State as of March 31, 2011 is $229.44 million and from participating employers is $48.46 million.

RSSL Chapter 260 of the Laws of 2004 authorized employers to amortize over ten years, at 5% interest, the portion of their annual bill for fiscal year ended 2006 that exceeded 9.5% of payroll. The amortized amount receivable from the State as of March 31, 2011 is $87.68 million and from participating employers is $17.17 million.

RSSL Chapter 260 of the Laws of 2004 authorized local employers to amortize over ten years, at 5% interest, the portion of their annual bill for fiscal year ended 2007 that exceeded 10.5% of payroll. The amortized amount receivable from participating employers as of March 31, 2011 is $15.85 million.

RSSL Chapter 57 of the Laws of 2010 authorized the State and local employers to amortize a portion of their annual pension costs during periods when actuarial contribution rates exceed thresholds established by the statute. Amortized amounts will be paid in equal annual installments over a ten-year period including a rate of interest set by the Comptroller annually. Employers may prepay these amounts at any time without penalty. The first payment will be due in the fiscal year following the decision to amortize. Chapter 57 further provides that when contribution rates fall below legally specified levels and all outstanding amortizations have been paid, employers that elected to amortize will be required to pay additional monies into reserve funds, specific to each employer, which will be used to offset their contributions in the future. These reserve funds will be invested separately from pension assets. For the annual bill for the fiscal year ended 2011, the statutory amortization threshold is 9.5% of payroll for ERS and 17.5% for PFRS. The Comptroller has set an interest rate of 5%. The amortized amount receivable from the State as of March 31, 2011 is $249.57 million and from participating employers is $43.75 million.

(3) Funded Status and Funding Progress

Funding Policy

Funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the RSSL. The System uses the aggregate actuarial funding method, which does not identify or separately amortize unfunded actuarial accrued liabilities. As required under GASB Statement No. 50, *Pension Disclosures (an amendment of GASB No. 25 and No. 27)*, the following is a schedule of funding progress using the entry age normal funding method to approximate the funding status of the System as of the most recent actuarial valuation date. This 2011 actuarial valuation performed on April 1, 2010, determined employer contributions for the year ending March 31, 2012.

The funded status of the System as of April 1, 2010, the most recent valuation date, is as follows (dollars in millions):

	ERS					
Actuarial valuation date	**Actuarial assets**	**Actuarial accrued liability**	**Unfunded actuarial accrued liability**	**Funded ratio**	**Covered payroll**	**Unfunded actuarial accrued liability as a percentage of covered payroll**
April 1, 2010	$ 125,482	$ 133,574	$ 8,092	93.9%	$ 24,972	32.4%

	PFRS					
Actuarial valuation date	**Actuarial assets**	**Actuarial accrued liability**	**Unfunded actuarial accrued liability**	**Funded ratio**	**Covered payroll**	**Unfunded actuarial accrued liability as a percentage of covered payroll**
April 1, 2010	$ 22,230	$ 22,998	$ 768	96.7%	$ 3,113	24.7%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Significant actuarial assumptions used in the April 1, 2010 valuation to determine employer contributions for the year ending March 31, 2012 were as follows:

Interest rate	7.5%
Salary scale	
ERS	4.9
PFRS	6.0
Decrement tables	April 1, 2005 – March 31, 2010 System’s experience
Inflation rate	2.7%

Significant actuarial assumptions used in the April 1, 2009 valuation to determine employer contributions for the year ending March 31, 2011 were as follows:

Interest rate	8.0%
Salary scale	
ERS	5.4
PFRS	6.7
Decrement tables	April 1, 2000 – March 31, 2005 System's experience
Inflation rate	3.0%

The actuarial asset value for domestic bonds and mortgages is amortized value. Short-term investments are at market value. Normally, all other investments use a five-year moving average of market values method assuming a 7% rate of expected appreciation. This method immediately recognizes regular investment income (interest and dividends) while phasing in unexpected appreciation/depreciation over a five-year period. It treats realized or unrealized gains (or losses) in the same manner.

Generally, participating employers that have adopted the same benefit plans contribute at the same rate of payroll. The total employer contribution rate as a percentage of salary includes rates for administrative expenses, GLIP, and supplemental benefits. GLIP is a one-year term insurance plan. Consequently, the GLIP rates are determined so as to pay for the current year's GLIP costs. Similarly, the administrative rates are determined so as to pay the current year's administrative expenses. Employers may make other contributions due to legislation, such as retirement incentives; the ten-year amortization of part of their fiscal year ended 2005, 2006, and 2007 bills; and deficiency payments, which an employer may incur when joining the System and are payable for up to 25 years. The following average employer contribution rates exclude certain contributions such as the ten-year amortization. The average employer contribution rate for PFRS for fiscal year ended March 31, 2011, was approximately 18.2% of payroll. The average contribution rate for ERS for fiscal year ended March 31, 2011, was approximately 11.9% of payroll.

(4) System Reserves

The legally required reserves, as covered by provisions of RSSL Section 20, are maintained by the System, are fully funded as of March 31, 2011, and are described below:

- *Annuity Savings Funds* – Funds in which contributions of Tier 1 and Tier 2 members are accumulated.
- *Annuity Reserve Funds* – Funds from which member contribution annuities are paid.
- *Pension Accumulation Funds* – Funds in which employer contributions and income from the investments of the System are accumulated.
- *Pension Reserve Funds* – Funds from which pensions are paid.
- *Coescalation (COESC) Contribution Funds* – Funds in which contributions are accumulated. These funds are transferred to the Pension Accumulation Fund at retirement.

As of March 31, 2011, the System reserves for ERS and PFRS consisted of the following:

	ERS 2011	PFRS 2011
	(In Millions)	
Annuity savings	$ 12.15	$ 27.74
Annuity reserve	114.27	10.83
Pension accumulation	58,462.76	10,301.92
Pension reserve	60,249.10	11,996.20
COESC contributions	8,201.59	0.79

There are certain other additional funds maintained by the System.

(5) Deposit and Investment Risk Disclosure

(a) Custodial Credit Risk for Investments

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, or are held either by the counterparty or the counterparty's trust department or agent, but not in the name of the Fund.

Equity and fixed income investments owned directly by the Fund, which trade in the United States (U.S.) markets, are held at the Fund's custodian, in separate accounts, in the name of the Comptroller of the State of New York in Trust for the Fund. These securities are typically held in electronic form through the Federal Book Entry System and by the Depository Trust Company (DTC) and its subsidiaries acting as an agent of the Fund's custodian bank. Securities held directly by the Fund, which trade in markets outside the U.S., are held by a subsidiary of the Fund's custodian bank in the local market, a bank performing custodial services in the local market acting as an agent for the Fund's custodian bank, and in some foreign markets, the securities are held in electronic form by a DTC subsidiary or an organization similar to DTC. Directly held investments include short-term and long-term fixed income and domestic and international equity separately managed accounts. The aforementioned investments have the lowest custodial risk.

Equity investments held indirectly by the Fund via limited partnerships, commingled investment funds, joint ventures, and other similar vehicles are held in custody by an organization contracted by the general partner and/or the investment management firm responsible for the management of each investment organization.

Title to real estate invested in by the Fund is held either by a real estate holding company or a real estate investment fund. Ownership of mortgage assets is documented by the Fund's holding of original mortgage and note documents by the Office of the State Comptroller, Division of Pension Investment and Cash Management.

(b) Custodial Credit Risk for Deposits

Deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance or deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging institution's trust department or agent, but not in the name of the Fund.

In accordance with existing policies and procedures, the Division of Pension Investment and Cash Management in the Office of the State Comptroller monitors deposit balances for the purpose of determining collateralization levels. Collateral sufficient to cover all uninsured deposits is held at the State's custodial bank.

(c) Interest Rate Risk

The System has interest rate risk, which is the risk that changes in market interest rates will adversely affect the fair value of the Fund's fixed income securities.

The price volatility of the Fund's fixed income holdings is measured by duration. Macaulay duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. In accordance with existing policies and procedures, the Fund attempts to match the duration of the assets with the duration of the pensioner liabilities.

As of March 31, 2011, the duration of the fixed income portfolio is as follows:

Bond category		**Fair value**	**Percentage of bond portfolio**	**Macaulay duration**
		(In Millions)		(In Years)
Treasury	$	5,781	27.5%	9.04
Federal agency		2,530	12.1	7.27
Mortgage-backed		4,828	23.0	4.08
Corporate		7,837	37.4	4.98
Total	$	20,976	100.0%	6.17
Treasury Inflation Protected Securities (TIPS)	$	10,062	—	10.42

(d) Credit Risk of Debt Securities

State statutes and the System's investment policies require that corporate fixed income obligations must be investment grade at the time of their acquisition. A bond is considered investment grade if its credit rating is Baa by Moody's or BBB– by Standard & Poor's. Long-term bond ratings as of March 31, 2011, are as follows (dollars in thousands):

Quality rating		Fair value	Percentage of fair value
AAA	$	18,335,477	59.08%
AA		2,116,569	6.82
A		4,029,777	12.98
BAA		1,518,664	4.89
BA		112,528	0.36
BBB		89,824	0.29
BB		28,051	0.09
Total debt securities with credit risk		26,230,890	84.51
Government and not-rated debt:			
Federal Home Loan Bank		897,280	2.89
Federal Home Loan Mortgage Corp (FHLMC)		868,971	2.80
Federal National Mortgage Association (FNMA)		173,070	0.56
NYS FHLMC		208,825	0.67
NYS FNMA		2,135,668	6.88
Tennessee Valley Authority		523,151	1.69
Total government and not-rated debt securities*		4,806,965	15.49
Total fixed income securities	$	31,037,855	100.00%

* Includes securities issued by government-sponsored enterprises that have an implied, but not explicit, guarantee from the federal government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer.

As of March 31, 2011, the System did not hold any investments in any one issuer that would represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from the regulation in the following paragraph.

Issuer limits for investments held by the Fund are established for each investment area by RSSL Article 2, Section 13 and Article 4A, Sections 176, 177, and 313 and policy guidelines adopted by the Division of Pension Investment and Cash Management.

Short-term fixed income investments are generally limited to the following investment types maturing in one year or less:

- Obligations for which the full faith and credit of the U.S. is pledged to provide payment of interest and principal.
- Obligations issued by any Federal Home Loan Bank or obligations fully guaranteed as to principal and interest by the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation.
- Commercial paper that has the highest rating by two nationally recognized rating services. A maximum of $500 million of the short-term portfolio may be invested in any one commercial paper issuer.
- Simultaneous purchase and sale of U.S. Treasury obligations may be executed with Primary Government Dealers. A maximum of $200 million may be invested with any one Primary Government Dealer.

Fixed income investments are generally limited to the following investment types with maturities longer than one year:

- Obligations for which the full faith and credit of the U.S. is pledged to provide payment of principal and interest.
- Obligations payable in U.S. dollars issued by any department, agency, or political subdivision of the U.S. government or issued by any corporation, company, or other issuer of any kind or description created or existing under the laws of the U.S., any state of the U.S., District of Columbia, or Commonwealth of Puerto Rico, and obligations of Canada or any province or city of Canada, provided each obligation shall be rated investment grade by two nationally recognized rating services. The aggregate investment by the Fund in the obligations of any one issuer shall not exceed 2% of the assets of the Fund or 5% of the direct liabilities of the issuer.
- Interest-bearing obligations are payable in U.S. funds at the time the investments are rated in one of the four highest rating grades by each rating service, which has rated such obligations. The aggregate amount invested in the obligations of any single issuer may not exceed 1% of the assets of the Fund.
- Bonds issued or guaranteed by the State of Israel payable in U.S. dollars, not to exceed 5% of the assets of the Fund.
- Obligations issued or guaranteed by the International Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, or the African Development Bank.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Fund has exposure through direct investments in international equities, international equity commingled funds, international real estate investments, international absolute return strategies, and international private equity investments. The Fund's asset allocation and investment policies allow for active and passive investments in international securities. The Fund permits the managers of direct investments in international equities to use forward currency contracts to manage their exposure to foreign currencies relative to the U.S. dollar. Where the Fund participates in commingled funds, limited partnerships, or other investment arrangements, the decision whether or not to use forward currency contracts to manage their foreign currency exposure is left up to the funds' managers.

Foreign investments included in the statement of plan net assets as of March 31, 2011, are as follows (in thousands of U.S. dollars):

	Equity	Cash	Real estate	Private equity and absolute return strategy funds	2011 Total
Algerian Dollar	$ —	$ —	$ 173	$ —	$ 173
Argentine Peso	—	—	575	66,402	66,977
Australian Dollar	617,199	2,613	72,391	113,234	805,437
Bahamian Dollar	—	—	—	4,351	4,351
Barbadian Dollar	—	—	265	—	265
Bermuda Dollar	—	—	2,400	257,393	259,793
Botswana Pula	—	—	—	2,285	2,285
Brazilian Real	58,675	80	51,924	39,039	149,718
British Pound Sterling	2,536,166	11,706	291,452	588,885	3,428,209
British Virgin Islands	—	—	—	76,268	76,268
Bulgarian Leva	—	—	162	6,360	6,522
Canadian Dollar	313,969	867	50,737	265,884	631,457
Cayman Islands	—	—	—	1,650,529	1,650,529
Central African CFA Franc	—	—	187	1,438	1,625
Chinese Renminbi	—	—	268,971	278,960	547,931
Columbian Peso	—	—	479	(36)	443
Congolese Franc	—	—	—	165	165
Costa Rica Colon	—	—	305	—	305
Croatian Kuna	—	—	155	254	409
Czech Koruna	7,154	—	12,182	5,307	24,643
Danish Krone	224,471	160	32,750	82,748	340,129
Dominican Peso		—	182	696	878
Egyptian Pound	6,018	29	7,813	(68)	13,792
Estonian Kroon	—	—	—	203	203
Ethiopian Birr	—	—	1,178	—	1,178
Euro	3,881,610	128,203	986,921	1,967,748	6,964,482
Fijian Dollar	—	—	84	—	84
French Pacific CFP Franc	—	—	102	—	102
Hong Kong Dollar	617,490	723	3,126	35,680	657,019
Hungarian Forint	2,114	42	3,745	885	6,786
Iceland Krona	—	—	60	4,153	4,213
Indian Rupee	111,684	4,771	3,493	179,198	299,146
Indonesian Rupiah	6,365	434	325	21,360	28,484
Israeli Shekel	64,659	478	1,728	229,366	296,231
Jamaica Dollar	—	—	287	—	287

	Equity	Cash	Real estate	Private equity and absolute return strategy funds	2011 Total
Japanese Yen	$ 2,256,966	$ 2,247	$ 124,563	$ 63,722	$ 2,447,498
Kazakhstani Tenge	—	—	—	6,965	6,965
Kenyan Shilling	—	—	994	—	994
Kuwaiti Dinar	—	—	581	1	582
Latvian Lats	—	—	595	1,360	1,955
Libyan Dinar	—	—	—	180	180
Malaysian Ringgit	6,943	688	548	26,380	34,559
Maldivian Rufiyaa	—	—	1,236		1,236
Mauritian Rupee	—	—	277	13,654	13,931
Mexican Peso	23,246	6	36,445	9,026	68,723
Moroccan Dirhan	—	—	100	—	100
New Taiwan Dollar	107,318	700	—	491	108,509
New Zealand Dollar	6,426	53	125	431	7,035
Nigerian Naira	—	—	1,414	167	1,581
Norwegian Krone	101,598	292	—	32,752	134,642
Omani Rial	—	—	97	16	113
Pakistan Rupee	—	—	—	433	433
Panamanian Balboa	—	—	—	112	112
Peruvian Nouveau Sol	—	1	44	9,263	9,308
Philippine Peso	1,036	—	48	3,953	5,037
Polish Zloty	35,412	22	32,460	5,409	73,303
Qatar Rial	4,091	—		93	4,184
Romania Leu	—	—	5,803	123	5,926
Russian Ruble	—	—	19,911	86,305	106,216
Saudi Riyal	—	—	5,315	522	5,837
Seychellois Rupee	—	—	91	—	91
Singapore Dollar	234,797	1,810	9,679	28,978	275,264
Slovakina Koruna	—	—	4,780	95	4,875
South African Rand	15,653	87	2,143	110,518	128,401
South Korean Won	172,275	507	2,695	12,804	188,281
Sri Lanka Rupee	—	—	182	—	182
Swedish Krona	380,706	542	125,689	95,941	602,878
Swiss Franc	943,448	2,074	22,193	73,863	1,041,578
Taiwan Dollar	—	—	—	6,447	6,447
Thailand Baht	29,266	22	2,213	5,956	37,457
Trinidad and Tobago Dollar	—	—	332	—	332
Turkish Lira New	21,497	89	19,465	14,918	55,969
Ukraine Hryvane	—	—	2,839	8,478	11,317
United Arab Emirates	—	—	6,530	6,523	13,053

	Equity	Cash	Real estate	Private equity and absolute return strategy funds	2011 Total
Venezuelan Bolivar	$ —	$ —	$ 119	$ 3,876	$ 3,995
Vietnamese Dong	—	—	78	559	637
Other	—	—	237	(9)	228
Total subject to foreign currency risk	12,788,252	159,246	2,223,973	6,508,992	21,680,463
Commingled international equity in U.S. Dollars	9,805,499	—	—	—	9,805,499
Foreign investments in U.S. Dollars	1,630,822	—	7,955	2,022,795	3,661,572
Total foreign investments	$ 24,224,573	$ 159,246	$ 2,231,928	$ 8,531,787	$ 35,147,534

(6) Derivatives

Derivatives are generally defined as an investment contract or security with a value that depends on, or is derived from, the value of an underlying asset, reference rate, or financial index. The System has classified the following as derivatives:

Forward Currency Contracts

The System may enter into forward currency contracts to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings. The System also enters into forward exchange contracts to settle future obligations. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation/depreciation in the statement of plan net assets. Realized gain or loss on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the statement of changes in plan net assets.

The table below summarizes the fair value of foreign currency contracts as of March 31, 2011 (in thousands of U.S. dollars):

Currency	Forward currency contracts	Spot currency contracts	Totals
Australian Dollar	$ 44,696	$ 4,104	$ 48,800
British Pound Sterling	57,375	(1,374)	56,001
Czech Koruna	(963)	—	(963)
Danish Krone	(7,308)	—	(7,308)
Euro	(80,345)	(7,354)	(87,699)
Hong Kong Dollar	(57,155)	(1,183)	(58,338)
Japanese Yen	(24,198)	—	(24,198)
Qatar Rial	(126)	—	(126)
Singapore Dollar	(210)	—	(210)
South Africa Rand	199	—	199
Swiss Franc	(21,595)	6,535	(15,060)
U.S. Dollar	84,626	(722)	83,904
Total	$ (5,004)	$ 6	$ (4,998)

(7) Securities Lending Program

RSSL Section 177-D authorizes the Fund to enter into security loan agreements with broker/dealers and state or national banks. The Fund has designated its master custodian bank (the custodian) to manage a securities lending program. This program is subject to a written contract between the Fund and the custodian who acts as security lending agent for the Fund. The custodian is authorized to lend securities within the borrower limits and guidelines established by the Fund. Types of collateral received from borrowers for securities loaned are cash, government securities, and obligations of federal agencies. The custodian is authorized to invest the cash collateral in short-term investments that are legal for the Fund. These include domestic corporate and bank notes, U.S. Treasury obligations, obligations of federal agencies, repurchase agreements, and specific asset-backed securities. All rights of ownership to securities pledged as collateral remain with the borrower except in the event of default. Under the terms of the securities lending agreement, the securities lending agent has agreed to hold the Fund harmless from borrower default from the loss of securities or income. As of March 31, 2011, there were no violations of legal or contractual provisions. The Fund has not experienced any losses resulting from the default of a borrower or lending agent during the year ended March 31, 2011 or in the history of the program.

The Fund lends fixed income, domestic equity, and international equity securities to approved broker/dealers. Collateral for securities loaned equals 102% of fair market value for domestic securities and 105% for international securities. Credit risk associated with the investment of cash collateral pledged by borrowers is mitigated by the maturity restrictions, percentage limitations, and rating requirements for individual asset classes included in the Fund's reinvestment guidelines. The custodian acknowledges responsibility to reimburse the Fund for losses, which might arise from managing the program in a manner inconsistent with the contract. The Fund manages its market risk by recording investments at market value daily and maintaining the value of the collateral held by the Fund in excess of the value of the securities loaned. As of March 31, 2011, the fair value of securities on loan was $12.718 billion. The associated collateral was $13.023 billion, of which $7.480 billion was cash collateral and $5.238 million was securities. The cash collateral has been reinvested in other instruments, which had a fair value of $7.498 billion as of March 31, 2011. The securities lending obligations were $7.679 billion. The unrealized loss in invested cash collateral on March 31, 2011 was $180.862 million, which is reflected in the statement of changes in plan net assets, "Net appreciation in fair value of investments."

All open security loans can be terminated on demand by either the Fund or borrower. To provide sufficient liquidity, the policy of the Fund is to maintain a minimum of 10% collateral in overnight investments. While the Securities Lending Investment Guidelines allow investments up to a maximum of three years for U.S. Treasury and federal agency obligations and one year for all other investments, the average term of open security loans at March 31, 2011 was 26 days. All loans were open loans. There were no direct matching loans.

The collateral pool is valued at fair value obtained from independent pricing services.

(8) Federal Income Tax Status

Management believes that the System meets the definition of a governmental plan. In the System's communications with the Internal Revenue Service (IRS), it has been treated as a qualified plan and is, therefore, considered exempt from federal income taxes. In January 2011, the System filed an application with the IRS under "Cycle E" for recertification of its qualified plan status. The System is awaiting a response to its application and has no reason to believe it will not receive a favorable determination from the IRS.

(9) Commitments

As of March 31, 2011, the System had contractual commitments totaling $5.797 billion to fund future private equities and $3.705 billion to fund future real estate investments.

(10) Contingencies

The System is a defendant in litigation involving individual benefit payments, participant eligibility, and other issues arising from its normal activities. Management of the System believes there will be no material adverse effect on the basic financial statements as a result of the outcome of these matters.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule 1

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Required Supplementary Information – Schedule of Funding Progress

Year ended March 31, 2011

(Unaudited)

The System uses the aggregate funding method, which does not identify or separately amortize unfunded actuarial liabilities. However, we have provided below a schedule of funding progress using the entry age normal funding method to approximate the funding status of the System. Every April 1st, an actuarial valuation is performed, which determines employer contributions for the year ending the next succeeding March 31st. For example, the 2011 actuarial valuation performed on April 1, 2010 determined employer contributions for the fiscal year ending March 31, 2012.

1. The average employer contribution rates for ERS for fiscal years ending 2011 and 2012 were approximately 11.9% of projected payroll and 16.3% of projected payroll, respectively.

2. The average employer contribution rates for PFRS for fiscal years ending 2011 and 2012 were approximately 18.2% of projected payroll and 21.6% of projected payroll, respectively.

3. These average employer contribution rates exclude certain contributions such as the 17-year amortization and the 10-year amortization available for the bills for fiscal years ended 2006, 2007, and 2008.

Employees' Retirement System
(Dollars In Millions)

Actuarial valuation date	Actuarial assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded actuarial accrued liability as a percentage of covered payroll
April 1, 2005	$ 105,088	$ 102,224	$ (2,864)	102.8%	$ 20,218	(14.2)%
April 1, 2006	112,209	107,785	(4,424)	104.1	20,919	(21.1)
April 1, 2007	121,116	114,525	(6,591)	105.8	22,018	(29.9)
April 1, 2008	128,916	120,183	(8,733)	107.3	22,779	(38.3)
April 1, 2009	126,438	125,136	(1,302)	101.0	24,099	(5.4)
April 1, 2010	125,482	133,574	8,092	93.9	24,972	32.4

(Continued)

Schedule 1

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Required Supplementary Information – Schedule of Funding Progress

Year ended March 31, 2011

(Unaudited)

Police and Fire Retirement System

(Dollars In Millions)

Actuarial valuation date	Actuarial assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded actuarial accrued liability as a percentage of covered payroll
April 1, 2005	$ 18,657	$ 17,802	$ (855)	104.8%	$ 2,531	(33.8)%
April 1, 2006	19,827	18,853	(974)	105.2	2,712	(35.9)
April 1, 2007	21,379	20,074	(1,305)	106.5	2,825	(46.2)
April 1, 2008	22,767	21,072	(1,695)	108.0	2,926	(57.9)
April 1, 2009	22,423	21,597	(826)	103.8	2,970	(27.8)
April 1, 2010	22,230	22,998	768	96.7	3,113	24.7

See accompanying independent auditors' report.

Schedule 2

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Employer Contributions

Year ended March 31, 2011

(Unaudited)

(Dollars in Thousands)

Employees' Retirement System

Year ended March 31		Annual required contributions: New York State	Local employers	Total	Percentage contribution
2006	$	994,328	1,354,393	2,348,721	100%
2007		878,920	1,337,167	2,216,087	100
2008		892,480	1,242,474	2,134,954	100
2009		802,655	1,160,758	1,963,413	100
2010		808,129	1,071,080	1,879,209	100
2011		1,659,288	1,963,350	3,622,638	100

Police and Fire Retirement System

Year ended March 31		Annual required contributions: New York State	Local employers	Total	Percentage contribution
2006	$	73,596	359,830	433,426	100%
2007		109,333	393,131	502,464	100
2008		115,294	398,200	513,494	100
2009		86,575	406,235	492,810	100
2010		89,335	375,678	465,013	100
2011		99,668	442,265	541,933	100

The annual required contributions (ARC) include the employers' normal costs, the GLIP amounts, and other supplemental amounts amortized over the collection period. In addition, due to statutory contribution provisions, State contributions may vary from the ARC to allow for under/overpayment of amounts for a one-year period.

See accompanying independent auditors' report.

ADDITIONAL SUPPLEMENTARY INFORMATION

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Administrative Expenses

Years ended March 31, 2011 and 2010

(In Thousands)

	2011	2010
Personnel services:		
Salaries	$ 51,437	$ 50,891
Overtime salaries	3,317	3,241
Fringe benefits	27,492	26,862
Total personnel services	82,246	80,994
Building occupancy expenses:		
Building, lease, and condominium fees	3,496	3,480
Utilities and municipal assessments	213	181
Office supplies and services	156	125
Telephone	581	606
Total building occupancy expenses	4,446	4,392
Computer expenses:		
IT hardware lease/purchases	228	587
IT supplies and maintenance/agency mainframe	7,469	7,617
IT consulting services	388	895
Total computer expenses	8,085	9,099
Personnel and operating expenses:		
Training	154	154
Travel and auto expense – includes pre-retirement seminars	797	817
Postage – includes member and retiree communication	1,921	1,486
Printing – includes member and retiree communication	329	626
Subscriptions/memberships	122	126
Total personnel and operating expenses	3,323	3,209
Professional expenses:		
Medical/clinical services	1,627	1,518
Consulting services	1,606	817
Total professional expenses	3,233	2,335
Total	$ 101,333	$ 100,029

See accompanying independent auditors’ report.

Schedule 4

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Investment Expenses

Years ended March 31, 2011 and 2010

(In Thousands)

	2011	2010
Investment expenses:		
Investment management and incentive fees:*		
Absolute return strategy funds	$ 123,728	$ 48,759
Private equity	111,952	115,803
Real estate	81,959	76,901
International equity	70,625	70,184
Domestic equity	36,725	34,598
Total investment management and incentive fees	424,989	346,245
Investment-related expenses:		
Legal fees	6,681	5,187
Administrative expenses	2,353	2,383
Absolute return strategy consulting and monitoring	3,309	2,071
EDP expenses/licenses	2,575	2,253
Mortgage loan servicing fees	2,565	1,797
Private equity consulting and monitoring	1,752	1,760
Real estate consulting and monitoring	607	746
Fixed income consulting and monitoring	487	514
Custodial fees	483	963
Global equity consulting	477	—
General consulting	350	—
Auditor fees	175	170
Domestic equity consulting and monitoring	60	389
Total investment-related expenses	21,874	18,233
Total investment expenses	$ 446,863	$ 364,478

* The System began reporting incentive fees for absolute return strategy funds during the fiscal year ended March 31, 2011. The System continues to report real estate incentive fees in the schedule above; private equity general partner carry interest is reflected as a reduction in realized gain.

See accompanying independent auditors' report.

Schedule 5

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Consulting Fees

Year ended March 31, 2011

(In Thousands)

Fees paid to outside professionals other than investment advisors, in excess of $25,000.

	Amount	Nature
Entwistle & Capucci LLP	$ 4,169	Legal
Day Pitney LLP	989	Legal
K&L Gates	490	Legal
Garnet River LLC	368	IT Consultant
Morgan, Lewis & Bockius LLP	317	Legal
First Choice Evaluations	265	Medical Services
Foster Pepper PLLC	236	Legal
Cox, Castle & Nicholson LLP	206	Legal
D & D Associates	199	Medical Services
KPMG LLP	175	Auditor
Garger Associates LLP	102	Medical Services
John S Mazella MD PC	93	Medical Services
Nixon Peabody LLP	92	Legal
IBM Corporation	88	IT Consultant
Herrick Feinstein LLP	72	Legal
Edward A Toriello MD	58	Medical Services
CEM Benchmarking Inc.	55	Industry Measurement Survey
Louis Benton	51	Medical Services
Mary T Babiarz Court Reporting Services Inc.	50	Court Reporter
Hunton & Williams	43	Legal
Austin R Leve MD	39	Medical Services
Precise Court Reporting	38	Court Reporter
Jack Economou	37	Hearing Officer
Attentive Personnel Inc.	36	Personnel Services
Jeffrey Meyer MD	35	Medical Services
Riverside Orthopaedic & Sports Medicine Assoc.	34	Medical Services
Groom Law Group	31	Tax Consultant
Alante Security Group Inc.	29	Security Services
Michael J Lynch MD CM	28	Medical Services
Mary Godesky MD	25	Medical Services

See accompanying independent auditors' report.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Trustee
New York State and Local Retirement System:

We have audited the financial statements of the New York State and Local Retirement System (the System) as of and for the year ended March 31, 2011, and have issued our report thereon dated July 11, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the System in a separate letter dated July 11, 2011.

This report is intended solely for the information and use of the Trustee and management, and is not intended to be and should not be used by anyone other than these specified parties.

July 11, 2011