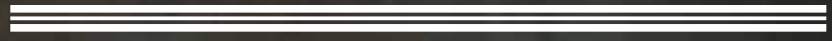


Financial



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Retirement Board
New York State Teachers' Retirement System:

We have audited the accompanying statements of plan net assets of the New York State Teachers' Retirement System (the System) as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2011 and 2010 and changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

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 audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The accompanying Supplemental Schedules of Administrative Expenses and Investment Expenses (Other Supplemental Schedules) as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introduction, Investments, Actuarial and Statistical sections of this report as listed in the accompanying table of contents have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

October 20, 2011

KPMG LLP

KPMG LLP is a Delaware limited liability partnership,
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("KPMG International"), a Swiss entity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010 (Unaudited)

The following discussion and analysis of the financial performance of the New York State Teachers' Retirement System (NYSTRS or the System) provides an overview of its activities for the years ended June 30, 2011, 2010 and 2009. Its purpose is to provide explanations and insights into the information presented in the financial statements, notes to the financial statements and required supplementary information.

Financial Highlights

- The System's investments experienced appreciation of \$15.4 billion in 2011 and \$6.8 billion in 2010, recovering from a loss of (\$21.5) billion in 2009.
- The System's net assets, which represent funds available to pay current and future benefits, were \$89.9 billion and \$76.8 billion at June 30, 2011 and 2010, respectively.
- Net assets increased from 2010 by \$13.0 billion, or 17.0% and 2010 net assets increased from 2009 by \$4.4 billion, or 6.0%.
- Contributions from employers were \$1.4 billion in fiscal year 2011, \$926 million in fiscal year 2010 and \$1.1 billion in fiscal year 2009, consistent with the change in the employer contribution rate. Employer contributions in 2011 also include \$112 million in retirement incentives under Chapter 105 of the Laws of 2010.
- The size of our membership grew and retirement benefits increased, rising from \$5.2 billion in fiscal year 2009 to \$5.3 billion in fiscal year 2010 and \$5.7 billion in fiscal year 2011.
- The System's funded ratio, a comparison of the actuarial value of assets to the accrued pension benefit liability, was 100.3% as of the June 30, 2010 valuation. Valuations in 2009 and 2008 were 103.2% and 106.6%, respectively.

Overview of the Financial Statements

The following discussion and analysis is intended to assist the reader in better understanding the purpose and meaning of each of the key components of NYSTRS financial statements, which are comprised of the following:

1. The *Statements of Plan Net Assets* present NYSTRS' assets and liabilities by major categories and may serve over time as a useful indicator of the System's financial position. The difference between assets and liabilities represents the *net assets held in trust for pension benefits*. The statement also compares assets and liabilities by class to the previous fiscal year, which offers the reader the opportunity to note changes in each class of asset and liability from year to year. The remaining liabilities consist of investment purchases payable, mortgage escrows and deposits net of investments and other liabilities.
2. The *Statements of Changes in Plan Net Assets* provide information on the change in the System's assets during the current fiscal year. The majority of income, or loss, is derived from investment income; primarily in the form of changes in the market value of assets from last year. Deductions include retirement benefit payments, beneficiary payments, return of contributions and administrative expenses. For comparison purpose, information pertaining to the previous year's *Statement of Changes in Plan Net Assets* is also provided.
3. The *Notes to the Financial Statements* are an essential part of the financial statements. They provide important background and detail information about NYSTRS, the plan and the statements themselves.
4. The *Required Supplementary Information* consists of information pertaining to NYSTRS' actuarial methods and assumptions and provides data on the funded status of the plan and the schedule of employer contributions. Other supplemental information is also presented and includes the schedules of administrative expenses and investment expenses.

Financial Analysis

Tables 1 and 2 summarize and compare the System's financial results for the fiscal years 2011, 2010 and 2009. It is important to note that the change from year to year in a particular investment category is attributable not only to the change in market value but also to purchases and sales or maturities of that investment.

Table 1 - Summary of Net Assets
 (dollars in thousands)

	June 30			Amount increase (decrease) 2010 to 2011	Percentage change of total 2010 to 2011
	2011	2010	2009		
Investments at fair value:					
Short-term	\$ 3,091,684	\$ 1,090,113	\$ 635,571	\$ 2,001,571	2.60%
Domestic fixed income securities	13,228,828	14,319,299	14,699,069	(1,090,471)	(1.42)
Domestic equities	41,443,343	34,611,666	32,193,981	6,831,677	8.89
International equities	12,009,539	9,175,382	8,609,318	2,834,157	3.69
Mortgages	4,129,106	4,308,620	4,065,628	(179,514)	(0.23)
Real estate	5,867,230	4,930,657	4,847,165	936,573	1.22
Alternative investments	8,379,520	7,022,117	5,958,848	1,357,403	1.77
Total investments	88,149,250	75,457,854	71,009,580	12,691,396	16.52
Net other assets/liabilities	1,740,474	1,387,083	1,462,177	353,391	0.46
Net assets	\$89,889,724	\$76,844,937	\$72,471,757	\$13,044,787	16.98%

Table 2 - Summary of Changes in Plan Net Assets
 (dollars in thousands)

	Years Ended June 30			Amount increase (decrease) 2010 to 2011	Percentage change of total 2010 to 2011
	2011	2010	2009		
Net appreciation (depreciation) in fair value of investments	\$15,395,105	\$6,776,648	\$ (21,516,277)	\$8,618,457	197.08%
Other investment income	1,855,310	1,925,567	2,153,137	(70,257)	(1.61)
Contributions	1,545,886	1,070,912	1,283,505	474,974	10.86
Retirement benefits	(5,681,007)	(5,333,788)	(5,151,463)	(347,219)	(7.94)
Other deductions	(70,507)	(66,159)	(66,481)	(4,348)	(0.10)
Net increase (decrease)	\$13,044,787	\$4,373,180	\$(23,297,579)	\$8,671,607	198.29%

Fiscal Year 2011

In 2011, the internally managed domestic fixed income portfolio balance decreased, however, as of June 30, 2011 was still within its allowable range at approximately 15% of invested System assets. During the fiscal year, bond maturities, sales, tenders, calls and agency mortgage principal prepayments exceeded purchases of approximately \$1.7 billion, by \$1.0 billion.

Persistently low market interest rates, a steep interest rate curve and further spread compression in corporate bonds during the fiscal year helped preserve the capital appreciation within the bond portfolio that somewhat offset the smaller bond positions. The net reduction in the face value of bonds held, along with the replacement of higher coupon bonds with lower coupon securities, resulted in a decrease in the weighted average coupon of the domestic fixed income portfolio, and lowered interest income during the 2011 fiscal year.

The value of domestic equities increased as a result of a market value increase of 32.4%. The increase was offset by net sales during the 2011 fiscal year of approximately \$4.4 billion as a result of rebalancing the portfolio towards the target allocation of 42%.

The international equities portfolio returned 30.89% for the 2011 fiscal year, slightly ahead of the Morgan Stanley Capital International Europe, Australia and Far East (MSCI EAFE) Index. The increase is due primarily to the increase in international equity markets.

Real estate value, as measured by National Council of Real Estate Investments Fiduciaries (NCREIF), continued to recover at a moderate pace of 2% to 3% per quarter for a total increase of 9.8% for the fiscal year.

The 2011 increase in private equity market values during the past fiscal year was the result of unrealized gains in the portfolio of \$1.4 billion, after \$1.1 billion in capital contributions to new and existing private equity funds and \$1.3 billion in distributions from existing private equity investments. The private equity program has a target allocation of 7%, which falls within the allowable range of 4% to 12%. Eight new private equity commitments were made during the fiscal year.

Fiscal and monetary initiatives implemented by policymakers, such as lower interest rates, helped the financial markets stabilize during fiscal year 2011. With this stability came a securities lending environment with inferior collateral investment opportunities from the previous year and one that provided less demand spread. These factors were the basis for a decrease in overall loan balances and resulted in a drop in securities lending gross and net earnings from the 2010 fiscal year. The unrealized loss on a small number of securities decreased year over year and continues to reflect their mark to market valuations.

Fiscal year 2011 investment expenses are comprised primarily of investment management fees which are based on the market value of assets managed and in some cases the returns achieved. The investment expense decrease in 2011 from 2010 is the result of a combination of lower assets under management throughout the year and a decrease in the fees charged.

The change in employer contributions was a function of an increase in the employer contribution rate from 6.19% in 2010 to 8.62% in 2011.

Fiscal Year 2010

In 2010, the domestic fixed income portfolio balance decreased and as of June 30, 2010 was close to the target allocation of 18% of invested assets. During the fiscal year, bond maturities, sales, calls and agency mortgage principal prepayments exceeded purchases of approximately \$2.2 billion by \$1.0 billion.

Lower market interest rates combined with spread compression during the fiscal year resulted in capital appreciation of the bond portfolio that partially offset the reduction in bond positions arising from bond maturities, principal prepayments and sales.

The net reduction in the face value of bonds held, along with the addition of new bond holdings with lower coupons resulted in a lower weighted average coupon of the domestic fixed income portfolio reducing interest income during the 2010 fiscal year.

The value of domestic equities increased as a result of a market value increase of 14.61% offset by net sales during the 2010 fiscal year of approximately \$2.29 billion resulting from the rebalancing toward the target allocation of 42% of the portfolio.

The international equities portfolio returned 6.58% for the 2010 fiscal year, slightly ahead of the MSCI EAFE Index. The increase is due primarily to the increase in international equity markets.

Real estate value declines, as measured by NCREIF, lessened each consecutive quarter of the fiscal year increasing from a negative 4.88% in the first quarter to a positive 1.61% in the fourth quarter of the fiscal year.

The 2010 increase in private equity market values during the past fiscal year was the result of unrealized gains in the portfolio of \$681.7 million, after \$804.6 million in capital contributions to new and existing private equity funds and \$455.1 million in distributions from existing private equity investments. The private equity program has a target allocation of 7%, which falls within the allowable range of 4% to 12%. Nine new private equity commitments were made during the fiscal year.

Fiscal and monetary initiatives implemented by policymakers, such as lower interest rates, helped the financial markets stabilize during fiscal year 2010. With this stability came a securities lending environment with inferior collateral investment opportunities from the previous year and one that provided less demand spread. These factors were the basis for a decrease in overall loan balances and resulted in a drop in securities lending gross and net earnings from the 2009 fiscal year. The unrealized loss on a small number of securities decreased year over year and continues to reflect their mark to market valuations.

Fiscal 2010 investment expenses are comprised primarily of investment management fees which are based on the market value of assets managed and in some cases the returns achieved. The investment expense decrease in 2010 from 2009 is the result of a combination of lower assets under management throughout the year and a decrease in the fees charged.

The change in employer contributions was a function of a decrease in the employer contribution rate from 7.63% in 2009 to 6.19% in 2010.

Net Appreciation (Depreciation)

For the year ended June 30, 2011, NYSTRS reported net investment income (loss) of \$17.3 billion compared to \$8.7 billion in 2010 and \$(19.4) billion in 2009. The most significant change was in appreciation (depreciation) on investments as follows:

Table 3 - Net Appreciation (Depreciation) on Investments
 (dollars in thousands)

	Years Ended June 30			Amount increase (decrease) 2010 to 2011
	2011	2010	2009	
Short-term	\$ 46	\$ 51	\$ 767	\$ (5)
Domestic fixed income	3,116	683,909	245,754	(680,793)
Domestic equities	10,104,814	4,704,379	(12,860,621)	5,400,435
International equities	2,826,183	597,977	(3,746,039)	2,228,206
Mortgages	14,039	312,392	(357,423)	(298,353)
Real estate investments	895,107	(269,894)	(2,919,845)	1,165,001
Alternative investments	1,551,800	747,834	(1,878,870)	803,966
Totals	\$15,395,105	\$6,776,648	\$(21,516,277)	\$8,618,457

Economic Factors

The economic factor that is of primary significance to NYSTRS is the investment rate of return earned in the capital markets. Legislative and demographic changes can also have a significant impact on the funded status of the plan. All of these factors are incorporated into the annual actuarial valuation, which determines the rate at which participating employers must contribute, in full and on time, to fund current and future member benefits. In terms of demographics, the System has and will continue to experience a shift toward a greater proportion of retirees relative to active members. This year the System had significant appreciation in investments, due to the performance of its domestic equity, international equity, real estate and private equity portfolios. Returns in the capital markets were very strong during the fiscal year. Equity returns are smoothed (averaged) by NYSTRS over a five-year period for purposes of computing the actuarial value of assets. The substantial loss on investments during the 2008-2009 fiscal year resulted in an increase in the employer contribution rate from 6.19% on 2009-2010 member salaries to 8.62% on 2010-2011 salaries. The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased to 100.3% as of the most recent actuarial valuation as of June 30, 2010, down from 103.2% in 2009.

Requests for Information

This financial report is designed to provide active members, retirees, employers and anyone else who is interested, with a general overview of the financial activities of NYSTRS. Questions about this report or requests for additional financial information should be addressed to the Public Information Office, New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, N.Y. 12211 or by e-mail at communit@nystrs.state.ny.us.

STATEMENTS OF PLAN NET ASSETS – June 30, 2011 and 2010
(dollars in thousands)

Assets:	2011	2010
Investments — at fair value (Note 5):		
Short-term	\$ 3,091,684	\$ 1,090,113
Domestic fixed income securities	13,228,828	14,319,299
Domestic equities	41,443,343	34,611,666
International equities	12,009,539	9,175,382
Mortgages	4,129,106	4,308,620
Real estate	5,867,230	4,930,657
Alternative investments	8,379,520	7,022,117
Total investments	88,149,250	75,457,854
Receivables:		
Employer	1,229,600	868,593
Employer incentives	111,324	----
Member	134,750	147,116
Investment income	169,935	185,105
Investment sales	119,252	22,070
Total receivables	1,764,861	1,222,884
Other Assets:		
Securities lending cash collateral — invested (Note 5)	2,640,559	3,879,644
Member loans	181,801	173,665
Capital assets, net of depreciation	23,272	26,101
Miscellaneous assets	8,308	123,068
Total other assets	2,853,940	4,202,478
Total assets	92,768,051	80,883,216
Liabilities and Net Assets:		
Securities lending collateral — due to borrowers (Note 5)	2,667,281	3,907,285
Investment purchases payable	111,262	36,101
Mortgage escrows and deposits — net of investments	1,743	6,023
Other liabilities (Notes 5 and 8)	98,041	88,870
Total liabilities	2,878,327	4,038,279
Net assets held in trust for pension benefits (Note 3)	\$89,889,724	\$76,844,937

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS –
Years Ended June 30, 2011 and 2010
(dollars in thousands)

Additions:	2011	2010
Investment income:		
Net appreciation in fair value of investments	\$15,395,105	\$ 6,776,648
Interest income	822,340	907,324
Dividend income	837,642	779,110
Real estate — net operating income	272,202	278,368
Securities lending — gross earnings	12,669	15,996
Other — net	7,669	22,229
	17,347,627	8,779,675
Less:		
Investment expenses	97,605	102,400
Securities lending:		
Broker rebates	(1,266)	(4,317)
Management fees	1,792	2,538
(Appreciation) of collateral	(919)	(23,161)
Net investment income	17,250,415	8,702,215
Contributions:		
Employer	1,277,040	925,506
Employer incentives	112,375	-----
Member	154,327	139,369
Transfers in/out — net	2,144	6,037
Total contributions	1,545,886	1,070,912
Net addition	18,796,301	9,773,127
Deductions:		
Retirement benefit payments — periodic	5,629,918	5,275,028
Beneficiary payments	51,089	58,760
Return of contributions	20,348	17,071
Administrative expenses	50,159	49,088
Total deductions	5,751,514	5,399,947
Net increase	13,044,787	4,373,180
Net assets held in trust for pension benefits:		
Beginning of year	76,844,937	72,471,757
End of year	\$89,889,724	\$76,844,937

See accompanying notes to financial statements.

(1) Plan Description

The New York State Teachers' Retirement System (NYSTRS or the System) was created and exists, pursuant to Article 11 of the New York State Education Law. The System is the administrator of a cost-sharing, multiple-employer public employee retirement system (PERS), administered by a 10-member Board to provide pension benefits for teachers employed by participating employers in the State of New York, excluding New York City.

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

	<u>2011</u>	<u>2010</u>
Public school districts	682	682
B.O.C.E.S.	37	37
S.U.N.Y.	31	31
Community colleges	30	30
Charter schools	23	23
Special act districts	13	13
Other	10	10
Total	<u>826</u>	<u>826</u>

As of June 30, the System's membership consisted of:

	<u>2011</u>	<u>2010</u>
Retired members and beneficiaries currently receiving benefits	146,843	141,716
Members:		
Active members	274,158	280,009
Terminated members entitled to but not yet receiving benefits	6,277	5,765
Subtotal	<u>280,435</u>	<u>285,774</u>
Total	<u>427,278</u>	<u>427,490</u>

(a) Benefits

The benefits provided to members of the System are established by New York State law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership and are subdivided into the following five classes:

Tier 1 - Members who last joined prior to July 1, 1973 are covered by the provisions of Article 11 of the Education Law.

Tier 2 - Members who last joined on or after July 1, 1973 and prior to July 27, 1976 are covered by the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law.

Tier 3 - Members who last joined on or after July 27, 1976 and prior to September 1, 1983 are covered by the provisions of Article 14 and Article 15 of the Retirement and Social Security Law.

Tier 4 - Members who last joined on or after September 1, 1983 and prior to January 1, 2010 are covered by the provisions of Article 15 of the Retirement and Social Security Law.

Tier 5 - Members who joined on or after January 1, 2010 are covered by the provisions of Article 15 of the Retirement and Social Security Law.

(b) Service Retirements

Tier 1 members are eligible for a service retirement allowance of approximately 2% per year of credited service times the final average salary at age 55.

Tiers 2 through 5 are eligible for the same but with the following limitations: 1) Tiers 2 through 4 members receive an unreduced benefit for retirement at age 62 or retirement at ages 55 through 61 with 30 years of service or a reduced benefit for retirement at ages 55 through 61 with less than 30 years of service. 2) Tier 5 members receive an unreduced benefit for retirement at age 62 or retirement at ages 57 through 61 with 30 years of service. They receive a reduced benefit for retirement at ages 55-56 regardless of service credit, or 57 through 61 with less than 30 years of service.

(c) Vested Benefits

Retirement benefits vest after 5 years of credited service except for Tier 5 where 10 years of credited service are required. Benefits are payable at age 55 or greater with the limitations noted for service retirements above.

(d) Disability Retirement

Members are eligible for disability retirement benefits after 10 years of credited New York State service except for Tier 3 where disability retirement is permissible after 5 years of credited New York State service pursuant to the provisions of Article 14 of the Retirement and Social Security Law. The Tier 3 benefit is integrated with Social Security.

(e) Death Benefits

Death benefits are paid to the beneficiary of active members who die in service. The benefit is based on final salary and the number of years of credited service.

(f) Prior Service

After 2 years of membership, members of all tiers may claim and receive credit for prior New York State public or teaching service. Only Tier 1 and 2 members may, under certain conditions, claim out-of-state service.

(g) Tier Reinstatement

In accordance with Chapter 640 of the Laws of 1998, any active member who had a prior membership may elect to be reinstated to their original date and Tier of membership.

(h) Employer Contributions

Employers are required to contribute at an actuarially determined rate.

(i) Member Contributions

Tier 3 and Tier 4 members who have less than 10 years of service or membership are required by law to contribute 3% of salary to the System. Tier 5 members are required by law to contribute 3.5% of salary throughout their active membership. Pursuant to Article 14 and Article 15 of the Retirement and Social Security Law, those member contributions are used to help fund the benefits provided by the System. However, if a member dies or leaves covered employment with less than 5 years of credited service for Tiers 3 and 4 or 10 years of credited service for Tier 5, the member contributions with interest calculated at 5% per annum are refunded to the employee or designated beneficiary. Eligible Tier 1 and Tier 2 members may make member contributions under certain conditions pursuant to the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law. Upon termination of membership, such accumulated member contributions are refunded. At retirement, such accumulated member contributions can be withdrawn or are paid as a life annuity.

(j) Article 19 Benefit Enhancement

Article 19 of the Retirement and Social Security Law allows eligible Tier 1 and 2 members to receive additional service credit of one-twelfth of a year for each year of retirement credit as of the date of retirement or death up to a maximum of two additional years. Effective October 2000, Tier 3 and 4 members are no longer required to make 3% contributions after obtaining the earlier of 10 or more years of service credit or 10 or more years of membership.

(k) Permanent Cost of Living Adjustment (COLA)

Section 532-a of the Education Law provides a permanent cost-of-living benefit to both current and future retired members. This benefit will be paid commencing September of each year to retired members who have attained age 62 and have been retired for five years or attained age 55 and have been retired for 10 years. Disability retirees must have been retired for 5 years, regardless of age, to be eligible. The annual COLA percentage is equal to 50% of the increase in the consumer price index, not to exceed 3% nor be lower than 1%. It is applied to the first eighteen thousand dollars of annual benefit. The applicable percentage payable beginning September 2011 is 1.4% compared to 1.2% paid beginning September 2010.

Members who retired prior to July 1, 1970 are eligible for a minimum benefit of seventeen thousand five hundred dollars for 35 years of credited full-time New York State service. Certain members who retire pursuant to the provisions of Article 14 of the Retirement and Social Security Law are eligible for automatic cost-of-living supplementation based on the increase in the consumer price index with a maximum per annum increase of 3%.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis.

(b) Method Used to Value Investments

Plan investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital expenditures. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, discounted cash flow analysis, recent sales prices of comparable investments, and other pertinent information.

(c) *Capital Assets*

Capital assets of twenty-five thousand dollars or more are recorded at historical cost and capitalized over their useful life. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Building	50
Building improvements	Various
Roads and shrubbery	15
Office furniture and equipment	7
Computer equipment and software	3
Automobiles	4

(d) *Federal Tax Status*

The System is exempt from Federal income taxes under the Internal Revenue Code.

(e) *Reclassifications*

Where necessary, amounts in the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements.

(f) *Use of Estimates*

Management of the System has made a number of estimates and assumptions relating to the reporting of assets and liabilities and in the disclosure of contingencies to prepare these financial statements in conformity with U.S. generally accepted accounting principles. The System's most significant estimates relate to assumptions made about future events as part of the annual actuarial valuation process, and the valuation of alternative investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(g) *Recently Adopted Accounting Pronouncements*

The System implemented Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) effective for year ended June 30, 2010. GASB 53 enhances the usefulness and comparability of derivative information reported in the financial statements.

There was no significant impact on the System's financial statements with the implementation of GASB 53.

(3) Funds

The following funds were established pursuant to the laws of the State of New York. All of the funds, with the exception of the Administrative Fund, are available for the payment of benefits to members or beneficiaries.

(a) *Annuity Savings Fund*

The fund in which contributions of Tier 1 and 2 members covered by the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law are accumulated.

(b) *Annuity Reserve Fund*

The fund from which the accumulated contributions of members covered by the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law are paid as a life annuity.

(c) *Pension Accumulation Fund*

The fund in which all reserves for the payment of all benefits are accumulated with the exception of the annuity provided by the accumulated contributions of Tier 1 and 2 members, supplemental retirement allowances, and group term life insurance.

(d) *Pension Reserve Fund*

The fund that pays pensions with the reserves transferred from the Pension Accumulation Fund.

(e) *Group Life Insurance Fund*

Pursuant to Article 4-B of the Retirement and Social Security Law, the Retirement Board established a Group Life Insurance Fund. The Group Life Insurance Fund provides a group term death benefit not to exceed fifty thousand dollars, payable upon the death of eligible members. Group term death benefits paid for the years ended June 30, 2011 and 2010 were \$7,496 and \$6,493, respectively. For reporting purposes below, this fund is combined with the Pension Accumulation Fund.

(f) *CO-ESC Member Contributions Fund*

Members covered by the provisions of Article 14 and Article 15 of the Retirement and Social Security Law contributed 3% of salary to the System's CO-ESC Member Contribution Fund. Effective October 2000, contributions were eliminated for Tier 3 and 4 members with 10 or more years of service or membership. Effective January 1, 2010, Tier 5 members are required to contribute 3.5% of salary throughout their active membership. Contributions to this fund were \$153,549 and \$162,728 for the years ended June 30, 2011 and 2010, respectively. For reporting purposes below, this fund is combined with the Pension Accumulation Fund.

(g) *Administrative Fund*

All operating expenses of the System are paid through this fund. The fund 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.

(h) *Summary of Fund Balances*

Net assets held in trust for pension benefits at June 30, consists of the following:

	<u>2011</u>	<u>2010</u>
Administrative Fund	\$ 47,980	\$ 36,698
Annuity Savings Fund	11,849	17,581
Annuity Reserve Fund	163,785	173,750
Pension Accumulation Fund	38,300,760	27,424,429
Pension Reserve Fund	51,365,350	49,192,479
Total	<u>\$89,889,724</u>	<u>\$76,844,937</u>

(4) Funded Status and Funding Progress

The funded status of the System as of June 30, 2010, the most recent actuarial valuation date, is as follows:
 (dollar amounts in millions):

Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) – entry age normal (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
\$88,544.4	\$88,318.8	\$(225.6)	100.3%	\$14,792.1	(1.5)%

The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

The System is funded in accordance with the Aggregate Cost Method. In accordance with GASB 50, the AAL above has been calculated in accordance with the Entry Age Normal Cost Method, for purposes of calculating and disclosing the funded ratio. The information presented here is intended to serve as a surrogate for the funded status of the plan.

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2010
Actuarial cost method	Aggregate
Amortization method	Level percent of payroll
Asset valuation method	Five-year phased in deferred recognition of each year's actual gain or loss, above (or below) an assumed inflationary gain of 3.0%.

Actuarial assumptions:

Investment rate of return*	8.0% compounded annually
Projected salary increases*	Rates of increase differ based on age and gender. They have been calculated based upon recent NYSTRS member experience.

<u>Age</u>	<u>Female</u>	<u>Male</u>
25	11.07%	11.30%
35	7.04	7.51
45	6.23	5.65
55	4.35	4.32

Projected COLAs 1.75% compounded annually

* Includes an inflation assumption of 3.0%

(5) Deposit and Investment Risk Disclosure

The System has been authorized by the New York State Legislature pursuant to the Banking Law, Section 235, the Education Law, Article 11, Section 508, the Retirement and Social Security Law (RSSL), Article 4-A, Sections 176-177, to invest in stocks, bonds, mortgages, real estate and other investments. A specific investment within these broad asset classes may be subject to particular restrictions or limitations contained in the applicable statutory provision. The “Leeway Clause” of Section 177 provides that, subject to guidelines adopted by the Retirement Board, up to 25% of assets may be invested in types of assets not otherwise specifically authorized, provided the Retirement Board is satisfied such investments were made with the care, skill, prudence, and diligence of a prudent person acting in a like capacity and familiar with such matters. Pursuant to regulations promulgated by the New York State Department of Insurance, investments must be made in a manner consistent with those of a reasonably prudent person exercising care, skill and caution. In addition to applicable legal constraints, the Retirement Board has adopted policies governing the investments made by the System.

(a) Credit Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2011 and 2010 are as follows:

Quality rating	2011		2010	
	Fair value	Percentage of portfolio	Fair value	Percentage of portfolio
Aaa	\$ 4,141,339	31.31%	\$ 5,158,169	36.03%
Aa	1,035,564	7.83	855,565	5.98
A	2,604,382	19.69	2,658,262	18.56
Baa	946,508	7.15	1,201,998	8.39
Other	65,754	0.50	104,982	0.73
Total credit risk debt securities	8,793,547	66.48	9,978,976	69.69
U.S. government fixed income securities *	4,435,281	33.52	4,340,323	30.31
Total fixed income securities	\$13,228,828	100.00%	\$14,319,299	100.00%

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

(b) Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty’s trust department or agent but not in the System’s name.

The head of the Division of the Treasury in the Department of Taxation and Finance (Treasurer) is the statutory custodian of the funds of the System, and, in this capacity, has arranged to have bank accounts collateralized. Collateral is held in the name of the Treasurer as custodian for the System, by a bank that does not act as an agent for the System. Although the System’s bank accounts were fully collateralized during the year, at June 30, 2011 and 2010, the System’s bank balance was \$(11,024) and \$(10,273), respectively, representing a managed overdraft.

All of the System’s deposits are insured and or collateralized by securities held by a financial institution separate from the System’s depository financial institution.

Consistent with the System's investment policy, all of the System's securities are held by the System's custodial bank in the System's name.

(c) Concentration of Credit Risk

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

As of June 30, 2011, the System did not hold fixed income investments in any one issuer that would represent 5% or more of total plan investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are permissible investments and are excluded from this regulation.

Issuer limits for investments held by the System are established for each investment area by the RSSL Article 4A, Sections 176-179.

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

- Obligations issued by any Federal Home Loan Bank or obligations fully guaranteed as to principal and interest by Fannie Mae or Freddie Mac.

Commercial paper that has the highest rating by two nationally recognized rating services. Fixed income securities are generally limited to the following investment types with maturities longer than one year:

- 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 System in the obligations of any one issuer shall not exceed 2% of the assets of the System or 5% of the direct liabilities of the issuer.
- Notwithstanding the 2% limitation stated above, the System may invest not more than 2.5% of its assets in the obligations of any one railroad or industrial corporation, or any one corporation engaged directly and primarily in the production, transportation, distribution or sale of electricity or gas or the operations of telephone and telegraph systems or waterworks or in some combination thereof.
- In no event may more than 30% of the System's assets be invested in bonds of electric and gas corporations. Equipment trust certificates, subject to the provisions of the law, are not to exceed 5% of the assets of the System.
- Obligations issued or guaranteed by the Inter-American Development Bank, Asian Development Bank, the African Development Bank or the Youth Facilities Project Guarantee Fund and participations therein.
- Obligations of the Dominion of Canada, of any province of the Dominion of Canada, and of any city of the Dominion of Canada, payable in U.S. funds, provided that the aggregate unpaid principal amount of all such obligations at any time held by the System shall not exceed 5% of the System's assets.
- Bonds of the Savings and Loan Bank of the State of New York, Federal Land Bank, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- Bonds of Freddie Mac, Federal Home Loan Banks, Tennessee Valley Authority, Fannie Mae, and the United States Postal Service.
- Obligations issued or guaranteed by the International Bank for Reconstruction and Development, provided the aggregate unpaid principal amount of such obligations at any time held by the System shall not exceed 5% of the System's assets.

- Bonds and notes of any bank, trust company, savings bank or savings and loan association organized under the laws of New York State having a net worth of at least \$10 million, which meet all applicable statutes, provided the aggregate unpaid principal amount of bonds and notes secured by conventional mortgages shall not exceed 5% of the assets of the System.
- Mortgage pass-through certificates, provided the certificates evidence ownership of undivided interests in pools or mortgage loans secured by first mortgages on real property located in New York State improved by one-to-four family residential dwellings, which meet all applicable statutes. The aggregate unpaid principal on conventional mortgages securing mortgage pass-through certificates cannot exceed 10% of the assets of the System nor can the total unpaid principal on any single pool of conventional mortgages securing mortgage pass-through certificates exceed 1% of the assets of the System.
- Collateralized Mortgage Obligations, which meet the requirements of applicable statutes.
- Private placements, where the purchase of unrated obligations is authorized by the Banking Law or the Retirement and Social Security Law, governing fixed income obligations; if not so provided, private placements as well as other domestic fixed income securities not otherwise provided for may be purchased under the Leeway Clause.

The System may invest in domestic equity securities and interest-bearing obligations payable in U.S. funds which are convertible into equity securities of any corporation created or existing under the laws of the U.S., any state of the U.S. District of Columbia, and the Commonwealth of Puerto Rico or any investment company, as defined by, and which is registered under, an act of Congress of the United States, entitled to the Investment Company Act of 1940, as amended, subject to certain limitations.

The System's international equity investments may not exceed 10% of the System's assets including emerging market equity securities.

The maximum amount invested within the System's equities, including domestic and international, may not exceed 15% per year or 70% in aggregate. The System may not own more than 5% of the total issued and outstanding equity securities of any one corporation.

The System's real estate investments will be diversified across geographic regions to allow for competitive portfolio performance in the event of a temporary weakness in any one region and to allow for differing urban and suburban market trends within any region. The System may invest in certain conventional mortgages constituting a first lien upon real property located in the U.S. pursuant to statute subject to certain provisions.

Alternative investments are made pursuant to the Leeway Clause of the Retirement and Social Security Law. The System's investment in a limited partnership is valued based on the underlying value of the companies in which the partnership has invested.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The System is exposed to interest rate risk at June 30, 2011 and 2010 as follows:

Investment type	2011		2010	
	Fair value	Duration	Fair value	Duration
Short-term	\$ 3,091,684	0.093	\$ 1,090,113	0.041
Domestic fixed income	13,228,828	3.771	14,319,299	3.478
Total fair value	<u>\$16,320,512</u>		<u>\$15,409,412</u>	
Portfolio modified duration		3.074		3.235

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is the measure of a bond price's sensitivity to a 100-basis point change in interest rates. A duration of 8 would mean that, given a 100-basis point change up/down in rates, a bond's price would move up/down by 8%.

(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 System has exposure through international holdings in commingled investment trust funds and separate accounts, international REITs (real estate investment trusts) and alternatives. The "Alternatives" represent private equity investments denominated in foreign currency. At June 30, 2010, the System held investments in ADRs (American Depositary Receipts) which are not included in the below schedule since they are denominated in U.S. dollars and accounted for at fair market value. These investments are externally managed and the System permits the individual managers to decide whether or not to use currency forward contracts to manage their exposure to foreign currencies. The System has an exposure to foreign currency fluctuation at June 30, 2011 and 2010 as follows (holdings valued in U.S. dollars):

	2011		2010	
	International equities	Alternatives	International equities	Alternatives
Currency:				
Euro	\$3,586,573	\$1,137,968	\$2,529,872	\$672,618
Japanese Yen	2,288,183	—	1,924,501	—
British Pound Sterling	2,462,060	67,624	1,773,342	50,951
Swiss Franc	978,480	—	711,766	—
Australian Dollar	972,901	—	644,143	—
Swedish Krona	366,328	—	224,651	—
Hong Kong Dollar	311,449	—	224,277	—
Singapore Dollar	210,706	—	126,520	—
Danish Krone	120,560	—	83,926	—
Norwegian Krone	101,532	—	55,879	—
Other	277,201	—	206,230	—
Totals	\$11,675,973	\$1,205,592	\$8,505,107	\$723,569

(f) Securities Lending Transactions

The Retirement and Social Security Law authorizes the System to enter into securities lending transactions. Agreements to lend a security must be with a broker-dealer or with New York State or nationally chartered banks and must not exceed a period of one year. The market value of securities loaned may not exceed 20% of the market value of the System's invested assets. Domestic bonds, domestic equities, and global REIT securities are loaned. Initial collateral of at least 102% of the market value of loaned securities is received from the borrower for domestic securities and 105% for international securities. Securities on loan are marked to market daily and collateral for the loan is required not to fall below 100%. Collateral due to borrowers is reported as a liability on the Statement of Plan Net Assets. At June 30, 2011 and 2010, the amount the System owed borrowers exceeded the fair value of the cash collateral invested by approximately \$26.7 million and \$27.6 million, respectively. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeds the amounts the borrowers owe the System (the loaned securities).

As of June 30, 2011, JP Morgan Securities Lending (JP Morgan) acted as agent for the domestic equity and fixed income securities lending programs and State Street Bank and Trust Co. acted as agent for the global REIT securities lending program. During the fiscal year ClearLend's (formerly Wachovia Global Services Lending) parent, Wells Fargo, made a strategic decision to exit the securities finance business. After conducting due diligence and in consideration of the risks involved in changing the System's domestic equity lender, the System determined that the best course of action was to move the domestic equity lending book to JP Morgan. Consequently in the month of June, the domestic equity component of the lending program was transitioned from ClearLend to JP Morgan. Under the terms of the contract with the lending agents, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. There were no significant violations of legal or contractual provisions, no borrower or lending agent defaults, and no recoveries of prior-period losses during the year. The majority of securities on loan can be recalled by the System on demand or returned by the borrower at any time. Cash collateral is invested by the System's lending agents, in short-term investment funds managed by the agent lenders. There is no direct match of the maturities of the collateral investments with the maturities of the securities loans. Investments are restricted to issuers with a short-term credit rating issued by Standard & Poor's and Moody's Investors Service, not lower than A-1/P-1 or long-term ratings not lower than A/A2, respectively, or the equivalent thereof. At June 30, 2011 the average effective duration of the funds managed by JP Morgan was 28 days compared to 24 days in 2010. Securities loans and related collateral investments are monitored on a daily basis to ensure compliance with collateral requirements, limitations, and collateral investment guidelines.

Securities lending program	2011	2010
Market value of securities on loan	\$2,610,949	\$3,797,725
Fair value of collateral invested	\$2,640,559	\$3,879,644
Fair value of liabilities to borrowers	2,667,281	3,907,285
Net unrealized (loss)	\$ (26,722)	\$ (27,641)

(6) Stock Option Program

The New York State Banking Department has issued a determination that a prudently maintained covered call option program is permissible under Banking Law (BL) §235 as long as the options are traded on a national exchange. Accordingly, the System's Retirement Board has authorized the execution of a Covered Call Option program to exit existing positions and to enhance yield. Options may be written when the annualized rate of return (excluding dividends) is greater than one percent (1%) above the current 90-day Treasury Bill rate. An open option may be closed out (repurchased) when the premium for such call has dropped to a level making the repurchase appropriate. The underlying market value of stocks covered by outstanding options may not exceed \$1 billion at any one time. Options on an individual issue shall not exceed the maximum position limit prescribed by the Options Clearing Corporation. All transactions shall be approved by the Finance Committee of the Retirement Board in the same manner as stock transactions.

Underlying securities of covered calls are required to be segregated with the custodian to guarantee delivery or payment if the options are exercised. When an option is written, an amount equal to the premium received by the System is recorded as a liability. When options are exercised, the premiums are added to the proceeds from the sale of the underlying security in determining whether there is a realized gain or loss. Premiums received from expired options are treated as income from investments on the expiration date or the date the options are closed out.

There were no open option transactions at June 30, 2011 or June 30, 2010.

(7) Commitments and Contingencies

The System, in the normal course of business, enters into commitments with off-balance-sheet risk. The System adheres to the same credit policies, financial and administrative controls and risk limiting and monitoring procedures for commitments as for on balance sheet investments.

The commitments for loans on real estate or purchases of real estate are subject to satisfactory appraisals prior to closing. Once investments are made, the System's exposure to potential loss is determined by the value of the underlying collateral.

The future financial commitments outstanding at June 30, 2011 and 2010 respectively, were: real estate and real estate alternative investments of \$1.3 billion and \$1.4 billion; mortgages of \$155.7 million and \$150.0 million; and private equity investments of \$3.9 billion and \$4.3 billion.

(8) Other Liabilities

Other liabilities include amounts due to the System's bank for disbursements issued on previous business days which are funded when presented for payment. Of the total other liabilities of \$98,041 and \$88,870 at June 30, 2011 and 2010, respectively, \$11,024 and \$10,273, respectively, were managed overdrafts.

(9) System Employees' Pension Plan

(a) Plan Description

As an employer, the System participates in the New York State and Local Retirement System (NYSLRS), a cost sharing, multi-employer defined benefit pension plan administered by the Comptroller of the State of New York. NYSLRS provides retirement, disability, withdrawal, and death benefits to plan members and beneficiaries as authorized by the Retirement and Social Security Law of the State of New York. Benefits are guaranteed by the State Constitution and cannot be diminished or impaired. Benefits can be reduced for future members only by an act of the State Legislature. The NYSLRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

(b) Funding Policy

Funding of NYSLRS is accomplished through member and employer contributions and investment earnings, according to the New York State Retirement and Social Security Law.

Plan members who joined the System before July 27, 1976 are not required to make contributions. Those joining on or after July 27, 1976 and before January 1, 2010 who have less than 10 years of service or membership are required to contribute 3% of salary. Those joining on or after January 1, 2010 are required to contribute 3% throughout active service. Employers are required to contribute at an actuarially determined rate. Various enactments of pension legislation has established distinct classes of membership referred to as Tiers 1, 2, 3, 4, and 5. An average employer contribution rate for these Tiers of 11.55% and 7.21% was applicable to the annual covered payroll for the fiscal years ended March 31, 2011 and March 31, 2010, respectively. The required contributions paid to NYSLRS during the System's years ended June 30, 2011 and 2010 were \$2,903 and \$1,802, respectively, and were 100% of the contributions required.

(10) System Employees' Other Postemployment Benefits

(a) Plan Description

The System adopted GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year beginning July 1, 2007. The adoption necessitated the recognition of an actuarially determined annual required contribution as an expense in the Statement of Changes in Plan Net Assets.

Pursuant to contractual agreement and policy, the System provides postemployment health care benefits to eligible System employees who retire from the System. The System is a voluntary participating employer in the New York State Health Insurance Program (NYSHIP), administered by the State of New York as an agent multiple-employer defined benefit plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plan and to establish maximum obligations of the plan members to contribute to the plan. The System's Board is authorized to establish the contribution rates of System employees and retirees below those set by Civil Service Law, and they are set as part of the collective bargaining process.

In order to be eligible, employees must have worked for at least ten years for the System, retire directly from System employment, and commence receipt of their pension from the NYSLRS. Dependents may also be covered.

System retirees are required to contribute toward the cost of their coverage. Under the current agreement, employees who retire on or after July 1, 1985 contribute an amount equal to 10% of the premium paid by the System up to the premium of the Empire Plan option. If more expensive coverage is elected, the retiree pays 10% of the Empire Plan option and 100% of the difference between the two. Employees who retire on or after April 1, 1991 are eligible to have accumulated unused sick leave converted into a credit to offset their contribution requirement.

As of June 30, 2011, 546 participants including 344 current employees, and 202 retired and/or spouses of retired employees participated in the healthcare plan. As of June 30, 2010, 547 participants including 350 current employees, and 197 retired and/or spouses of retired employees participated in the healthcare plan. NYSHIP does not issue a standalone financial report and NYSHIP's agent activities are included within the financial statements of the State of New York.

(b) Funding

The System's Board established the New York State Teachers' Retirement System Retired Employee Health Benefits Trust (the Trust) in 2008. The Trust was created for the sole purpose of accepting irrevocable contributions from the System in order to provide postretirement health insurance benefits to current and future eligible retirees of the System in accordance with the terms of the healthcare plan. The Trust issues stand alone financial statements which can be obtained by contacting the System.

The employer contribution, or funding, of the System's other postemployment benefit obligation (OPEB) is at the discretion of management and the Board. The System's current policy is to contribute the annual required contribution (ARC) to the Trust, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The System's contribution to the Trust for the years ended June 30, 2011 and 2010, were \$4,154 and \$3,499, respectively, and were equal to 100% of the System's annual OPEB cost, or ARC. The System has no net OPEB obligation as the System pays 100% of the ARC each year.

The funded status of the System’s plan as of the most recent actuarial valuation date is as follows:

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) – entry age normal (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2010	\$5,495	\$60,044	\$54,549	9.20%	\$24,021	227%

(c) *Actuarial Methods and Assumptions*

Effective July 1, 2007, the System prospectively implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. Prior to adoption, OPEB provisions were recorded on a pay-as-you-go basis. The first actuarial valuation date was July 1, 2007, and the OPEB liability at transition was zero. The System’s Trust is required to have an actuarial valuation performed at least biennially.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2010
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	8.0% compounded annually
Healthcare cost trend rate	10% initial, 5% ultimate

* Includes an inflation assumption of 3.0%

(11) Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters for which the System carries commercial insurance. There were no settlements in the past two years that exceeded coverage. Management of the System believes there would be no material adverse effect on the financial statements as a result of the outcome of these matters if they existed.

REQUIRED SUPPLEMENTARY INFORMATION – June 30, 2011

Schedule of the Funding Progress (Unaudited)
(dollars in millions)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) – entry age normal (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
June 30, 2006	\$78,335.8	\$76,353.0	\$(1,982.8)	102.6%	\$12,518.0	(15.8)%
June 30, 2007	82,858.9	79,537.2	(3,321.7)	104.2	13,083.0	(25.4)
June 30, 2008	88,254.7	82,777.5	(5,477.2)	106.6	13,690.1	(40.0)
June 30, 2009	88,805.5	86,062.0	(2,743.5)	103.2	14,366.4	(19.1)
June 30, 2010	88,544.4	88,318.8	(225.6)	100.3	14,792.1	(1.5)

The System is funded in accordance with the Aggregate Cost Method. In accordance with GASB 50, the AAL above has been calculated in accordance with the Entry Age Normal Cost Method, for the purpose of calculating and disclosing the funded ratio. The information presented here is intended to serve as a surrogate for the funding progress of the plan.

This is the fifth year of application of GASB 50. In accordance with paragraph 13 of the standard, the schedule of funding progress contains the required elements of information as of the most recent actuarial valuation date. In subsequent years, more information will be added based on future actuarial valuation dates, until the full required schedule of funding progress is complete.

See accompanying independent auditors' report.

Other Post Employment Benefits Schedule of Funding Progress (Unaudited)
(dollars in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) – entry age normal (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2008	\$1,763	\$50,929	\$49,166	3.5%	\$21,240	231%
July 1, 2009	3,446	53,470	50,024	6.4	23,676	211
July 1, 2010	5,495	60,044	54,549	9.2	24,021	227

This is the fourth year of application of GASB 45. In accordance with paragraph 26 of the standard, the schedule of funding progress contains the required elements of information as of the most recent actuarial valuation date. The Trust is required to have an actuarial valuation performed at least biennially. The most recent actuarial valuation was completed as of July 1, 2010.

Employer Contributions (Unaudited)
(dollars in thousands)

Year Ended June 30:	Annual Required Contribution	Percentage Contributed
2006	\$ 997,032	100%
2007	1,104,010	100
2008	1,188,140	100
2009	1,096,117	100
2010	925,506	100
2011	\$1,389,415	100

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL SCHEDULES
 Schedule of Administrative Expenses
 Years Ended June 30, 2011 and 2010
 (dollars in thousands)

	2011	2010
Salaries and benefits:		
Salaries	\$25,528	\$25,577
Civil service	72	75
Employees retirement	2,915	2,091
Health and dental insurance	8,032	7,251
Overtime salaries	73	47
Social security	1,828	1,829
Total salaries and benefits	38,468	36,870
Building occupancy expenses:		
Building, grounds and equipment	1,022	970
Depreciation — building and improvements	973	954
Depreciation — equipment	225	330
Office supplies and expenses	171	187
Utilities and municipal assessments	817	834
Total building occupancy expenses	3,208	3,275
Computer expenses:		
Amortization/depreciation — computer mainframe	138	96
Amortization/depreciation — computer micro	3,109	3,411
Computer hardware and software	2,417	2,323
Computer maintenance and supplies	99	221
Total computer expenses	5,763	6,050
Investment expenses:		
Advisory committee expenses	117	109
Service costs — real estate	34	36
Total investment expenses	151	145
Personnel and meeting expenses:		
Board — meetings, travel and education	94	90
Delegates meeting	55	46
Pre-retirement seminars	135	139
Professional development	477	564
Travel and automobile expense	150	111
Other personnel expenses	25	41
Total personnel and meeting expenses	936	991
Professional and governmental services:		
Auditors — financial	120	137
Auditors — insurance department	67	67
Disability medical examinations	86	95
Postage and cartage	765	913
Professional fees and services	126	75
Publications	353	354
Statutory custodian charges	116	116
Total professional and governmental services	1,633	1,757
Total	\$50,159	\$49,088

See accompanying independent auditors' report.

Schedule of Investment Expenses – Year Ended June 30, 2011
(dollars in thousands)

Investment category	Assets serviced or under management	Expenses*
Domestic fixed income	\$ 935,492	\$ 1,943
Domestic equity	3,423,793	13,536
International equity	12,009,539	10,375
Mortgages	2,267,646	277
Real estate	5,861,647	52,988
Alternative investments	8,379,520	13,184
General	—	5,302
Totals	\$32,877,637	\$97,605

**Expenses represent primarily professional fees.*

See accompanying independent auditors' report.