KPMG

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Financial Statements and Supplementary Information

March 31, 2015

(With Independent Auditors' Report Thereon)

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

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KPMG LLP
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Independent Auditors' Report

The Trustee
New York State and Local Retirement System:

Report on the Financial Statements

We have audited the accompanying combining statement of fiduciary net position of the New York State and Local Retirement System (the System) as of March 31, 2015, the related combining statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the fiduciary net position of the System as of March 31, 2015, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2(g) to the financial statements, in 2015, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

July 17, 2015

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, 2015 is intended to provide the reader with an analysis of the System's overall financial position. The System is comprised of the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). 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 position of the System held in trust to pay pension benefits was $189.41 billion as of March 31, 2015. This amount reflects an increase of $8.14 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, 2015 and 2014 is $9.28 billion and $17.43 billion, respectively.

- The System's investments reported a positive time-weighted rate of return of 7.16 percent for the fiscal year ended March 31, 2015 and a positive time-weighted rate of return of 13.02 percent for the fiscal year ended March 31, 2014.
- Retirement and death benefits paid during fiscal year 2015 to 430,308 annuitants totaled $10.44 billion, as compared to $9.90 billion to 422,405 annuitants for fiscal year 2014. The increase is primarily due to the number of new retirees.
- Contributions from employers decreased from $6.06 billion last year to $5.80 billion this year. The decrease in contributions is attributable to lower billing rates.
- The net pension liability (NPL) for ERS was $3.38 billion for the measurement period ended March 31, 2015 as compared to $4.52 billion for the measurement period ended March 31, 2014. The fiduciary net position, restricted for pension benefits as of March 31, 2015 was $161.21 billion and represents 97.9 percent of the calculated total pension liability for ERS. The NPL is allocated to participating employers and reported pursuant to Governmental Accounting Standards Board (GASB) Statements 67 and 68.
- The NPL for the PFRS was $275.26 million for the measurement period ended March 31, 2015 as compared to $416.31 million for the measurement period ended March 31, 2014. The fiduciary net position restricted for pension benefits as of March 31, 2015 was $28.20 billion and represents 99.0 percent of the calculated total pension liability for the PFRS. The NPL is allocated to participating employers and reported pursuant to GASB Statements 67 and 68.

Overview of the Financial Statements

The financial statements consist of the combining statement of fiduciary net position, combining statement of changes in fiduciary net position, 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 is supplementary information required by the GASB. The additional supplementary information following the required supplementary information is not required, but management has chosen to include such information to increase transparency.

(Continued)

The combining statement of fiduciary net position 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 the System’s net position.

The combining statement of changes in fiduciary net position presents the changes to the System’s net position for the fiscal year, including net 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.

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. The financial statement notes include Description of Plans, Summary of Significant Accounting Policies, System Reserves, Investments, Deposit and Investment Risk Disclosure, Derivatives, Securities Lending Program, Net Pension Liability of Participating Employers, Federal Income Tax Status, Commitments, and Contingencies.

The required supplementary schedules are based upon the System’s adoption of GASB Statement 67 and include: Changes in the Employers’ Net Pension Liability and Related Ratios, Schedule of the Employer Contributions, and Schedule of Investment Returns.

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

Analysis of the 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 allocated to a variety of asset types and strategies in order to meet the current funding needs as well as future growth requirements of the pension liability. Equity-related investments are included for their long-term return and growth characteristics. While a majority of fixed income and debt-related investments are generally 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, a portion is strategically invested in more actively traded markets. 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 fiduciary net position as of March 31, 2015, as compared to March 31, 2014:

	2015	**2014**	**Dollar Change**	**Percentage Change**
		(Dollars in Thousands)		
Assets:				
Investments	$ 184,502,044	$ 176,835,136	$ 7,666,908	4.3%
Securities lending collateral – invested	6,195,790	7,787,775	(1,591,985)	(20.4)
Receivables and other assets	7,184,596	6,011,311	1,173,285	19.5
Total assets	197,882,430	190,634,222	7,248,208	3.8
Liabilities:				
Securities lending obligations	6,206,381	7,801,205	(1,594,824)	(20.4)
Payables and other liabilities	2,263,633	1,557,668	705,965	45.3
Total liabilities	8,470,014	9,358,873	(888,859)	(9.5)
Net position, restricted for pension benefits	$ 189,412,416	$ 181,275,349	$ 8,137,067	4.5%

The fiduciary net position of the System totaled $189.41 billion as of March 31, 2015, an increase of $8.14 billion from the prior fiscal year.

(Continued)

Table 2

Schedule of invested assets as of March 31, 2015, as compared to March 31, 2014:

	2015	2014	Dollar Change	Percentage Change
	(Dollars in Thousands)			
Domestic equity	$ 67,219,661	$ 65,281,392	$ 1,938,269	3.0%
Global fixed income	47,652,210	40,737,743	6,914,467	17.0
International equity	27,073,871	27,910,342	(836,471)	(3.0)
Private equity	14,247,374	14,369,804	(122,430)	(0.9)
Real estate	12,123,440	12,529,309	(405,869)	(3.2)
Absolute return strategy investments	8,388,806	7,406,113	982,693	13.3
Short-term investments	5,252,486	6,592,848	(1,340,362)	(20.3)
Opportunistic funds	1,292,161	480,851	811,310	168.7
Mortgage loans	852,955	853,906	(951)	(0.1)
Real assets	399,080	—	399,080	100.0
Exchange-traded fixed income funds	—	672,828	(672,828)	(100.0)
Total investments	$ 184,502,044	$ 176,835,136	$ 7,666,908	4.3%

The New York State Common Retirement Fund (the Fund) added real asset investments to the portfolio during 2015 and eliminated the allocation to the exchange-traded funds in the fixed income portfolio. The remaining largest percentage increases to the invested assets were in opportunistic funds, global fixed income and absolute return strategies, which represent 0.7 percent, 25.8 percent and 4.5 percent of the portfolio, respectively. The Fund added capital to new corporate issues and funded an external manager for a diversified global fixed income mandate. The Fund also continued to add capital to both the opportunistic portfolio and the absolute return strategy portfolio to fulfill the asset allocation. This strategy, in conjunction with positive market performance, enabled the Fund to capitalize on the dynamic opportunity set across global markets.

Table 3

Summary schedule of changes in fiduciary net position for the year ended March 31, 2015, as compared to the year ended March 31, 2014:

	2015	2014	Dollar Change	Percentage Change
	(Dollars in Thousands)			
Additions:				
Net investment income	$ 12,444,891	$ 20,598,593	$ (8,153,702)	(39.6)%
Total contributions	6,313,041	6,538,112	(225,071)	(3.4)
Total additions	18,757,932	27,136,705	(8,378,773)	(30.9)
Deductions:				
Total benefits paid	(10,513,714)	(9,977,526)	(536,188)	5.4
Administrative expenses	(107,151)	(105,662)	(1,489)	1.4
Total deductions	(10,620,865)	(10,083,188)	(537,677)	5.3
Net increase	8,137,067	17,053,517	(8,916,450)	(52.3)
Net position, restricted for pension benefits – beginning of year	181,275,349	164,221,832	17,053,517	10.4
Net position, restricted for pension benefits – end of year	$ 189,412,416	$ 181,275,349	$ 8,137,067	4.5%

The change in net investment income is primarily attributable to the decrease in the net appreciation in fair value of investments from 2014 to 2015. This is reflected in the change in investment time-weighted rate of return, gross of investment expense, from 13.02 percent in 2014 to 7.16 percent in 2015. The decrease in total contributions is attributable to the change in employer billing rates.

Economic Factors and Rates of Return

The Fund posted positive investment performance for the fiscal year ended March 31, 2015, with a time-weighted rate of return of 7.16 percent, reflecting the overall positive performance in the world equity markets. In addition to the Fund's domestic equity portfolio, the alternative investment portfolio experienced strong performance, benefited by the private equity and real estate portfolios. The Fund benefited from continued growth in the U.S., but market volatility and concerns about increasing inflation and political uncertainty across the globe persist. This was the sixth consecutive year of positive performance for the Fund following the fiscal crisis of 2008.

(Continued)

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

Combining Statement of Fiduciary Net Position

March 31, 2015

(Dollars in Thousands)

	Employees' Retirement System	Police and Fire Retirement System	Total
Assets:			
Investments (notes 2(b), 4 and 5):			
Domestic equity	$ 57,099,900	$ 10,119,761	$ 67,219,661
Global fixed income	40,478,283	7,173,927	47,652,210
International equity	22,997,964	4,075,907	27,073,871
Private equity	12,102,466	2,144,908	14,247,374
Real estate	10,298,285	1,825,155	12,123,440
Absolute return strategy investments	7,125,891	1,262,915	8,388,806
Short-term investments	4,461,737	790,749	5,252,486
Opportunistic funds	1,097,629	194,532	1,292,161
Mortgage loans	724,545	128,410	852,955
Real assets	338,999	60,081	399,080
Total investments	156,725,699	27,776,345	184,502,044
Securities lending collateral – invested (note 7)	5,263,028	932,762	6,195,790
Forward foreign exchange contracts (note 6)	634,361	112,427	746,788
Receivables:			
Employers' contributions	3,699,666	444,043	4,143,709
Members' contributions	65	2	67
Member loans	1,101,178	2,583	1,103,761
Investment income	396,859	70,335	467,194
Investment sales	413,982	73,369	487,351
Other	46,406	49,072	95,478
Total receivables	5,658,156	639,404	6,297,560
Capital assets, at cost, net of accumulated depreciation	119,134	21,114	140,248
Total assets	168,400,378	29,482,052	197,882,430
Liabilities:			
Securities lending obligations (note 7)	5,272,025	934,356	6,206,381
Forward foreign exchange contracts (note 6)	638,895	113,231	752,126
Accounts payable – investments	904,098	160,232	1,064,330
Benefits payable	196,864	49,383	246,247
Other liabilities	175,237	25,693	200,930
Total liabilities	7,187,119	1,282,895	8,470,014
Net position, restricted for pension benefits	$ 161,213,259	$ 28,199,157	$ 189,412,416

See accompanying notes to financial statements.

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Combining Statement of Changes in Fiduciary Net Position

Year Ended March 31, 2015

(Dollars in Thousands)

	Employees' Retirement System	Police and Fire Retirement System	Total
Additions:			
Income from investing activities:			
Net appreciation in fair value of investments	$ 7,886,974	$ 1,388,361	$ 9,275,335
Interest income	1,231,053	216,704	1,447,757
Dividend income	1,351,365	237,883	1,589,248
Other income	582,928	102,613	685,541
Less investment expenses	(497,492)	(87,574)	(585,066)
Total income from investing activities	10,554,828	1,857,987	12,412,815
Income from securities lending activities:			
Securities lending income	12,129	2,135	14,264
Securities lending rebates	18,175	3,200	21,375
Less securities lending management fees	(3,030)	(533)	(3,563)
Total income from securities lending activities	27,274	4,802	32,076
Total net investment income	10,582,102	1,862,789	12,444,891
Contributions:			
Employers	4,893,110	904,339	5,797,449
Members	272,004	12,789	284,793
Interest on accounts receivable	121,163	14,243	135,406
Other	72,013	23,380	95,393
Total contributions	5,358,290	954,751	6,313,041
Total additions	15,940,392	2,817,540	18,757,932
Deductions:			
Benefits paid:			
Retirement benefits	(8,655,099)	(1,597,978)	(10,253,077)
Death benefits	(174,652)	(8,439)	(183,091)
Other, net	(77,388)	(158)	(77,546)
Total benefits paid	(8,907,139)	(1,606,575)	(10,513,714)
Administrative expenses	(93,357)	(13,794)	(107,151)
Total deductions	(9,000,496)	(1,620,369)	(10,620,865)
Net increase	6,939,896	1,197,171	8,137,067
Net position, restricted for pension benefits – beginning of year	154,273,363	27,001,986	181,275,349
Net position, restricted for pension benefits – end of year	$ 161,213,259	$ 28,199,157	$ 189,412,416

See accompanying notes to financial statements.

(1) Description of Plans

The New York State Comptroller’s Office administers the following plans: the New York State and Local Employees’ Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS), which are collectively referred to as the New York State and Local Retirement System (the System). The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all assets and record changes in fiduciary net position allocated to the System.

The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November 2014, he was elected for a new term commencing January 1, 2015. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. 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. The Public Employees’ Group Life Insurance Plan (GLIP) provides death benefits in the form of life insurance. In these statements, GLIP amounts are apportioned to and included in ERS and PFRS.

As of March 31, 2015, the number of participating employers for ERS and PFRS consisted of the following:

	ERS	PFRS
State	1	1
Counties	57	4
Cities	61	61
Towns	913	206
Villages	489	376
Other	787	34
School districts	698	—
Total	3,006	682

As of March 31, 2015, the System membership for ERS and PFRS consisted of the following:

	ERS	PFRS
Retirees and beneficiaries currently receiving benefits	396,781	33,527
Active members	491,558	31,372
Inactive members *	117,079	3,169
Total members and benefit recipients	1,005,418	68,068

* Includes vested members not currently receiving benefits and nonvested members.

(Continued)

(a) Membership Tiers

Pension legislation enacted in 1973, 1976, 1983, 2009 and 2012 established distinct classes of membership. For convenience, the System uses a tier concept to distinguish these groups, generally:

ERS

Tier 1	Those persons who last became members before July 1, 1973.
Tier 2	Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
Tier 3	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.
Tier 4	Generally, except for correction officers, those persons who last became members on or after September 1, 1983, but before January 1, 2010.
Tier 5	Those persons who last became members on or after January 1, 2010, but before April 1, 2012.
Tier 6	Those persons who first became members on or after April 1, 2012.

PFRS

Tier 1	Those persons who last became members before July 31, 1973.
Tier 2	Those persons who last became members on or after July 31, 1973, but before July 1, 2009.
Tier 3	Those persons who last became members on or after July 1, 2009, but before January 9, 2010.
Tier 4	N/A
Tier 5	Those persons who last became members on or after January 9, 2010, but before April 1, 2012, or who were previously PFRS Tier 3 members who elected to become Tier 5.
Tier 6	Those persons who first became members on or after April 1, 2012.

(b) Vesting

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

(c) Employer Contributions

Participating employers are required under the RSSL to contribute to the System at an actuarially determined rate adopted annually by the Comptroller. The average contribution rate for ERS for the fiscal year ended March 31, 2015 was approximately 20.1 percent of payroll. The average contribution rate for PFRS for the fiscal year ended March 31, 2015 was approximately 27.6 percent of payroll. Delinquent annual bills for employer contributions accrue interest at the actuarial interest rate applicable during the year. For the fiscal year ended March 31, 2015, the applicable interest rate was 7.5 percent.

(d) Member Contributions

Generally, Tier 3, 4, and 5 members must contribute 3 percent of their salary to the System. As a result of Article 19 of the RSSL, 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. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3 percent to 6 percent depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

(e) Benefits

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 1 members who joined on or after June 17, 1971, each year used in the final average salary calculation is limited to no more than 20 percent of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent of the average of the previous two years.

Tiers 3, 4, and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 3, 4 and 5 members, each year used in the final average salary calculation is limited to no more than 10 percent of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members and 62 for PFRS members.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

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 to eligible members after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 ERS and PFRS members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability 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 the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually 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; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. 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 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The System maintains records and accounts, and prepares financial statements using the accrual basis of accounting. Employer contributions are recognized when legally due, pursuant to statutory requirements, in accordance with the terms of each plan. Member contributions are based on earned member salaries and are recognized when due. Benefits, expenses, and refunds are recognized when due and payable.

(b) Investments

Investments are recorded on a trade-date basis and 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 such changes could materially affect the amounts reported. The amounts reported as investments on the financial statements are allocated between ERS and PFRS based on each system's monthly average equity in the Fund. See note 4(c) for detailed information on the System's policy on investment valuation.

(c) Member Loan Programs

Members are entitled to participate in a loan program that allows them to borrow up to 75 percent 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 percent 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, 2015 was 6.5 percent.

(d) Capital Assets

Capital assets are capitalized at cost and amortized 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. As of March 31, 2015, capitalized outlays for the project total $35.7 million. This project is currently ongoing and is expected to be completed in the fiscal year ending 2016, at which time amortization of the capitalized costs will begin.

During the fiscal year ended March 31, 2014, the System began capitalizing outlays associated with its pension administration system redesign. As of March 31, 2015, capitalized outlays for the project total $82.8 million. This project is currently ongoing and is expected to be completed in the fiscal year ending 2019, at which time amortization of the capitalized costs will begin.

(e) Contributions Receivable

Employers' contributions receivable are presented net of withdrawals, refunds, advance employer payments, and credits due employers. Receivable amounts from participating employers include $52.83 million for amortization of retirement incentives, new plan adoptions, and retroactive membership. Receivable amounts from the State for other amortizations total $0.74 million.

The Retirement and Social Security Law includes several provisions related to the amortization of employer contribution amounts. These include:

- Chapter 260 of the Laws of 2004 authorized employers to amortize over ten years, at 5 percent interest, the portion of their annual bill for the fiscal year ended 2006 that exceeded 9.5 percent of payroll. The amortized amount receivable from the State as of March 31, 2015 is $1.92 million and from participating employers is $3.46 million.
- Chapter 260 of the Laws of 2004 authorized local employers to amortize over ten years, at 5 percent interest, the portion of their annual bill for the fiscal year ended 2007 that exceeded 10.5 percent of payroll. The amortized amount receivable from participating employers as of March 31, 2015 is $5.22 million.
- 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 moneys 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 percent of payroll for ERS and 17.5 percent for PFRS. The Comptroller has set an interest rate of 5 percent. The amortized amount receivable from the State as of March 31, 2015 is $164.72 million and from participating employers is $27.73 million.

For the annual bill for the fiscal year ended 2012, the statutory amortization threshold is 10.5 percent of payroll for ERS and 18.5 percent for PFRS. The Comptroller has set an interest rate of 3.75 percent. The amortized amount receivable from the State as of March 31, 2015 is $416.46 million and from participating employers is $152.59 million.

For the annual bill for the fiscal year ended 2013, the statutory amortization threshold is 11.5 percent of payroll for ERS and 19.5 percent for PFRS. The Comptroller has set an interest rate of 3 percent. The amortized amount receivable from the State as of March 31, 2015 is $642.24 million and from participating employers is $302.24 million.

For the annual bill for the fiscal year ended 2014, the statutory amortization threshold is 12.5 percent of payroll for ERS and 20.5 percent for PFRS. The Comptroller has set an interest rate of 3.67 percent. The amortized amount receivable from the State as of March 31, 2015 is $860.33 million and from participating employers is $200 million.

For the annual bill for the fiscal year ended 2015, the statutory amortization threshold is 13.5 percent of payroll for ERS and 21.5 percent for PFRS. The Comptroller has set an interest rate of 3.15 percent. The amortized amount receivable from the State as of March 31, 2015 is $715.02 million and from participating employers is $152.13 million.

- The fiscal year 2014 Enacted Budget included an alternate contribution program (the Alternate Contribution Stabilization Program) that provided certain participating employers with a one-time election to amortize slightly more of their required contributions than would be available for amortization under the 2010 legislation. In addition, the maximum payment period was increased from ten years to twelve years. The election was available to counties, cities, towns, villages, BOCES, school districts and the four public health care centers operated in the counties of Nassau, Westchester and Erie. The State was not eligible to participate in the Alternate Contribution Stabilization Program.

For the annual bill for the fiscal year ended 2014, the alternative amortization threshold is 12 percent of payroll for ERS and 20 percent for PFRS. The Comptroller has set an interest rate of 3.76 percent. The amortized amount receivable from participating employers is $234.14 million.

For the annual bill for the fiscal year ended 2015, the alternative amortization threshold is 12 percent of payroll for ERS and 20 percent for PFRS. The Comptroller has set an interest rate of 3.5 percent. The amortized amount receivable from participating employers is $196.48 million.

(f) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 combined statement of fiduciary net position. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

(g) Recent Accounting Pronouncements

The System adopted Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. GASB Statement No. 67 addresses the reporting by pension plans that administer benefits for governments through trusts or similar arrangements meeting certain criteria. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, and requires the System to include more extensive note disclosures and required supplementary information. This statement impacts the presentation of the financial statements, notes and required supplementary information. Considerable modifications are required in actuarial calculations of pension liability. Disclosure requirements include additional information on the net pension liability and discount rate (note 8) and investments (note 4).

(3) System Reserves

The legally required reserves, as covered by provisions of the RSSL, are maintained by the System, are fully funded as of March 31, 2015, 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.
- *Designated Annuitant Funds* – Funds from which beneficiary annuities are paid.
- *Loan Insurance Funds* – Funds that provide loan insurance coverage for members with existing no default loan balances at time of death.
- *Group Life Insurance Plan Reserve* – Reserves that provide group term death benefits not to exceed $50,000, payable upon the death of eligible members.

- *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, 2015, the System reserves for ERS and PFRS consisted of the following:

	ERS	PFRS
	(Dollars in Thousands)	
Annuity savings	$ 6,421	$ 40,964
Annuity reserve	89,619	9,916
Pension accumulation	70,522,012	12,504,377
Pension reserve	81,838,470	15,596,545
Designated annuitant	56,214	22,300
Loan insurance	2,458	103
Group Life Insurance Plan reserve	89,607	5,224
COESC contributions	8,608,458	19,728
Total	$ 161,213,259	$ 28,199,157

(4) Investments

(a) Investment Policy

The State Comptroller, currently Comptroller Thomas P. DiNapoli, is Trustee of the Fund. He is directly accountable for the investment of Fund assets and for the oversight and management of the Fund. Comptroller DiNapoli is responsible for implementing an asset allocation with an appropriate balance of risk and return. The Trustee has put in place investment policies and practices designed to ensure that investments are made for the exclusive benefit of the participants and beneficiaries of the System, on whose behalf the assets of the Fund are invested, and that Fund investments are made with the care that a prudent person serving in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims – the "prudent person" and "exclusive benefit" fiduciary standards of investment. Additionally, the Trustee has adopted policies and practices to ensure that the Fund is managed with high levels of ethical conduct and transparency.

The Comptroller seeks the input of a wide range of internal and external advisors to determine the allocation of assets and the appropriate investment choices for the Fund. Approximately sixty employees work in the Office of the State Comptroller's Division of Pension Investment and Cash Management (PICM). The Comptroller appoints a Chief Investment Officer to oversee PICM operations, manage staff, and supervise investments on a day-to-day basis. The Fund also relies on advice from a network of outside advisors, consultants, and legal counsel, as well as the members of independent external advisory committees appointed by the Comptroller. Outside advisors and internal investment staff are part of the chain of approval that must recommend all investment decisions before they reach the Comptroller for final approval.

The asset allocation is not intended to be an absolute limit on the type of investments that can be made by the Comptroller or considered by staff. The Comptroller is expressly permitted to invest the assets of the Fund pursuant to various provisions of State law, including, among others, sections 13, 176, 177, 178, and 313 of the RSSL, which also contains limitations on the amount and quality of investments the Fund may hold in certain asset categories. Investments purchased pursuant to these provisions are so-called “legal list” investments. In addition to the foregoing, section 177(9) of the RSSL contains a provision that currently provides that up to 25 percent of the Fund’s assets may be placed in investments not specifically authorized by any other provision of law. In making investments under this provision, the Comptroller is subject to the prudent person and exclusive benefit provisions in the statute. Subject to such standards, investments made under this provision also must, to the extent reasonably possible, benefit the overall economic health of the State. Investments purchased pursuant to section 177(9) of the RSSL are so-called “basket clause” investments.

The external advisory committees appointed by the Comptroller meet periodically throughout the year and provide independent, expert assistance in guiding the Fund. These committees include: the Advisory Council for the Retirement System; the Investment Advisory Committee; the Real Estate Advisory Committee; the Actuarial Advisory Committee; and the Audit Advisory Committee.

(b) Asset Allocation

The following was the adopted asset allocation policy as of March 31, 2015:

Asset Class	Target Allocation
Domestic equity	38.0%
International equity	13.0
Private equity	10.0
Real estate	8.0
Absolute return strategies	3.0
Opportunistic portfolio	3.0
Real assets	3.0
Bonds and mortgages	18.0
Cash	2.0
Inflation-indexed bonds	2.0
	100.0%

(c) Methods Used to Value Investments

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

Bonds and other fixed assets are primarily reported at fair values obtained from independent pricing services or the fund’s custodian.

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 if none of the preceding fit a property's attributes and strategy, at cost.

For various alternative investments (private equity, absolute return strategies, opportunistic funds, and real assets) where no readily ascertainable market value exists, management in consultation with its investment advisors will value these investments in good faith based upon reported net asset values, cash-flow analysis, purchases and sales of similar investments, new financings, economic conditions, other practices used within the industry, or other information provided by the underlying investment advisors. 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.

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.

(d) Rates of Return

In accordance with U.S. generally accepted accounting principles, the money-weighted rate of return on plan investments, net of investment expenses, was 6.98% for the year ended March 31, 2015. The money-weighted rate of return expresses investment performance after consideration of the impact of the changing amounts actually invested. For internal purposes, the System evaluates investment performance using the time-weighted rate of return, gross of certain investment expenses, which was 7.16 % for the year ended March 31, 2015.

(5) Deposit and Investment Risk Disclosure

(a) Custodial Credit Risk for Investments

Investment securities are exposed to custodial credit risk if the securities 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 generally held by 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 that 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. Fixed income investments that are not held by the Fund's custodian are held by third-party administrators in the name of the Comptroller of the State of New York in Trust for the Fund.

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's PICM.

(b) Custodial Credit Risk for Deposits

Deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance or the 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 PICM 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. Pursuant to the Fund's investment policies and procedures and to address changing economic factors and their impact on various sectors of the economy, the Division's staff meets regularly to discuss the investment strategy for the fixed income portfolio. Several factors are taken into account when formulating this strategy, including sector weightings and the current duration of the portfolio.

The price volatility of the Fund's fixed income holdings is measured by duration. Effective duration is a measure of the price sensitivity of a bond to interest rate movements. Effective duration follows the concept that interest rates and bond prices move in opposite directions.

(Continued)

As of March 31, 2015, the duration of the fixed income portfolio is as follows:

Bond Category	**Fair Value**	**Percentage of Bond Portfolio**	**Effective Duration**
		(Dollars in Thousands)	(In years)
Core portfolio:			
Treasury	$ 5,148,689	10.8%	6.59
Federal agency	3,196,405	6.7	3.95
Corporate	17,128,059	36.0	6.10
Asset-backed	2,003,379	4.2	1.52
Commercial mortgage-backed	2,273,606	4.8	2.76
Mortgage-backed	5,479,569	11.5	2.73
Collateralized loan obligations	926,509	1.9	0.19
Core portfolio	36,156,216	75.9	4.79
Treasury Inflation-Protected Securities (TIPS)	9,551,145	20.0	6.10
Externally managed funds:			
Smith Graham	311,101	0.7	3.35
BlackRock	1,633,748	3.4	3.28
Total	$ 47,652,210	100.0%	

(d) Credit Risk of Debt Securities

Fixed income obligations purchased pursuant to section 177(1-a) of the RSSL must be investment grade at the time of their acquisition. A bond is considered investment grade if its credit rating is Baa or higher by Moody's or BBB– or higher by Standard & Poor's. Fixed income obligations purchased pursuant to section 177(9) of the RSSL, the "basket clause," are subject to a standard of prudence. As of March 31, 2015, credit ratings, obtained from several industry rating services, for the fixed income portfolio are as follows (dollars in thousands):

Quality rating		Fair Value	Percentage of Fair Value
AAA	$	26,644,073	55.90%
AA		3,658,675	7.68
A		8,118,294	17.04
BAA		6,864,538	14.41
BBB		933,288	1.96
BA		467,061	0.98
BB		133,936	0.28
B		448,504	0.94
CAA		219,323	0.46
CCC		14,464	0.03
CA		62,267	0.13
CC		7,213	0.02
C		4,762	0.01
Not rated		72,005	0.15
Default		3,807	0.01
Total	$	47,652,210	100.00%

(e) 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, 2015, the System did not hold any investments in any one issuer that totaled 5 percent or more of the pension plan's fiduciary net position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded.

Issuer limits for investments held by the Fund are established by law and by policy guidelines adopted by the PICM.

Short-term fixed income investments not purchased pursuant to section 177(9) of the RSSL 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 received the highest rating from two nationally recognized rating services. A maximum of $1 billion 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.
- Corporate and Asset-backed securities (ABS) that are rated investment grade by two nationally recognized rating services. ABS must have a weighted average life of one year or less.

Short-term fixed income investments purchased pursuant to section 177(9) of the RSSL are subject to the specific prudent person investor and exclusive benefit provisions of this statute. Subject to such standards, investments made under section 177(9) must, to the extent reasonably possible, benefit the overall economic health of the State.

Fixed income investments not purchased pursuant to section 177(9) of the RSSL 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., the District of Columbia, or the Commonwealth of Puerto Rico, and obligations payable in U.S. funds of Canada or any province or city of Canada, provided each obligation at the time of investment shall be rated investment grade by two nationally recognized rating services (or by one nationally recognized rating service in the event only one such service rates such obligation). The aggregate investment by the Fund in the obligations of any one issuer shall not exceed 2 percent of the assets of the Fund or 5 percent of the direct liabilities of the issuer.
- Interest bearing obligations payable in U.S. funds, which at the time of investment are rated in one of the three highest rating grades by each rating service approved by the New York State Department of Financial Services that has rated such obligations. The aggregate amount invested in the obligations of any single issuer may not exceed 1 percent of the assets of the Fund.
- Bonds issued or guaranteed by the State of Israel and approved by the United States Comptroller of the Currency, payable in U.S. dollars, not to exceed 5 percent of the assets of the Fund.
- Obligations issued or guaranteed by the International Bank for Reconstruction and Development (not to exceed 5 percent of the assets of the Fund), the Inter-American Development Bank, the Asian Development Bank, or the African Development Bank.

Fixed income investments purchased pursuant to section 177(9) of the RSSL are subject to the specific prudent person investor and exclusive benefit provisions of this statute. Subject to such standards, investments made under section 177(9) must, to the extent reasonably possible, benefit the overall economic health of the State.

(f) 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 fixed income investments, international real estate investments, international absolute return strategies, international private equity investments, international opportunistic funds, and international real asset funds. 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 individual investment managers. To address the impact of changes in exchange rates, only forward foreign exchange contracts of one year or less are allowed when used to lessen portfolio volatility or hedge the portfolio's currency exposure.

Foreign investments included in the combining statement of fiduciary net position as of March 31, 2015 are as follows (U.S. Dollars in Thousands):

	Fixed Income	Equity	Cash	Real Estate	Private Equity, Opportunistic, Absolute Return Strategy and Real Asset Funds	Total
Algerian Dinar	$ —	$ —	$ —	$ 158	$ —	$ 158
Argentine Peso	12,582	—	—	1,329	17,006	30,917
Australian Dollar	293,713	452,383	2,227	127,223	84,026	959,572
Bahamian Dollar	—	—	—	331	5,836	6,167
Barbadian Dollar		—	—	279	—	279
Bermudian Dollar	4,056	—	—	—	110,541	114,597
Brazilian Real	41,890	151,448	500	73,175	84,841	351,854
British Pound Sterling	748,437	2,275,600	9,706	499,314	1,044,497	4,577,554
Bulgarian Lev	—	—	—	148	9,325	9,473
Burmese Kyat	—	—	—		5,195	5,195
Canadian Dollar	1,454,337	268,124	2,259	5,646	369,567	2,099,933
Cayman Islands Dollar	179,311	—	—		3,093,755	3,273,066
Central African CFA Franc	—	—	—	290	—	290
Chilean Peso	31,617	15,181	201		1,387	48,386
Chinese Yuan	564,540	—	—	318,273	947,521	1,830,334
Columbian Peso	13,765	982	—	527	(556)	14,718
Costa Rican Colon	4,812	—	—	172	12	4,996
Croatian Kuna	11,759	—	—	134	—	11,893
Czech Koruna	—	3,436	587	10,517	14,597	29,137
Danish Krone	35,974	244,235	538	50,433	94,122	425,302
Dominican Peso	6,742	—	—	154	1,376	8,272
Egyptian Pound	—	2,981	1,855	1,150	507	6,493
Ethiopian Birr	—	—	—	847	—	847
Euro	638,484	3,208,715	63,305	884,679	1,537,700	6,332,883
Fijian Dollar	—	—	—	165	—	165
Ghanaian Cedi	2,828	—	—		(1,110)	1,718
Guatamalan Quetzal	—	—	—		(76)	(76)
Hong Kong Dollar	74,857	991,795	1,270	127,305	45,638	1,240,865
Hungarian Forint	15,664	8,400	134	1,591	23,539	49,328
Icelandic Krona	—	—	—	69	16,265	16,334
Indian Rupee	76,174	181,343	6,231	69,881	299,786	633,415
Indonesian Rupiah	41,512	28,857	72	229	38,577	109,247
Iraqi Dinar	—	—	—	—	3,880	3,880
Israeli Shekel	267,910	5,186	7	2,610	17,782	293,495
Jamaican Dollar	705	—	—	202	—	907
Japanese Yen	349,736	2,146,872	5,305	164,358	213,153	2,879,424
Kazakhstani Tenge	12,934	—	—	54	546	13,534
Kenyan Shilling	3,994	—	—	265	—	4,259
Kuwaiti Dinar	—	—	—	289	—	289
Lebanese Pound	8,847	—	—	—	—	8,847
Macanese Pataca	—	—	—	—	499	499
Malaysian Ringgit	3,503	66,935	376	716	20,235	91,765
Maldivian Rufiyaa	—	—	—	1,045	3,986	5,031
Mauritian Rupee	—	—	—	403	12,374	12,777
Mexican Peso	480,414	60,546	81	21,721	54,176	616,938
Mongolian Togrog	1,873	—	—	—	229	2,102
Moroccan Dirham	—	200	—	428	—	628
Namibian Dollar	—	—	—	—	159	159
New Taiwan Dollar	—	300,339	406	2,910	21,747	325,402
New Zealand Dollar	30,057	19,445	8	292	3,786	53,588
Nigerian Naira	—	—	—	953	5,359	6,312
Norwegian Krone	80,735	57,938	252	—	83,247	222,172
Pakistan Rupee	2,227	—	—	—	792	3,019
Panamanian Balboa	—	—	—	89	6,003	6,092
Papa New Guinean Kina	—	—	—	—	(115)	(115)

	Fixed Income	Equity	Cash	Real Estate	Private Equity, Opportunistic, Absolute Return Strategy and Real Asset Funds	Total
Peruvian Nuevo Sol	$ 12,601	$ —	$ —	$ 166	$ 16,218	$ 28,985
Philippine Peso	19,421	18,510	27	—	8,932	46,890
Polish Zloty	13,654	34,029	251	40,478	30,640	119,052
Qatari Rial	—	7,644	—	212	—	7,856
Romanian Leu	—	—	—	6,024	78	6,102
Russian Ruble	27,071	—	—	13,049	46,884	87,004
Saudi Riyal	—	—	—	2,040	(2)	2,038
Seychellois Rupee	—	—	—	117	—	117
Singapore Dollar	101,473	190,545	101	1,334	56,346	349,799
South African Rand	106,354	117,414	603	1,012	76,518	301,901
South Korean Won	320,033	457,421	60	3,444	101,637	882,595
Sri Lankan Rupee	10,429	—	—	117	135	10,681
Swedish Krona	932	542,500	135	143,933	211,287	898,787
Swiss Franc	74,815	1,015,908	213	2,982	147,660	1,241,578
Thai Baht	486	62,834	—	6,244	(1,732)	67,832
Trinidad and Tobago Dollar		—	—	279	—	279
Turkish Lira New	54,032	39,917	93	6,924	58,659	159,625
Ukrainian Hryvnia	1,755	—	—	2,350	(162)	3,943
United Arab Emirates Dirham	50,664	3,180	23	12,051	1,096	67,014
Uruguayan Peso	8,148	—	—	61	—	8,209
Venezuelan Bolivar	12,790	—	—	3,507	10,177	26,474
Vietnamese Dong	2,129	—	—	103	6,211	8,443
West African CFA Franc	2,506	—	—	—	4,978	7,484
Zambian Kwacha	—	—	—	—	5,815	5,815
Other	—	—	—	74	(8)	66
Total subject to foreign currency risk	6,315,282	12,980,843	96,826	2,616,855	9,073,079	31,082,885
Commingled international equity in U.S. Dollars	—	10,163,205	—	—	—	10,163,205
Foreign investments in U.S. Dollars	195,605	3,929,823	—	7,335	4,304,621	8,437,384
Total foreign investments	$ 6,510,887	$ 27,073,871	$ 96,826	$ 2,624,190	$ 13,377,700	$ 49,683,474

(6) Derivatives

A derivative is 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 combining statement of fiduciary net position. 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 combining statement of changes in fiduciary net position.

The table below summarizes the fair value of foreign currency contracts as of March 31, 2015 (U.S. Dollars in Thousands):

Currency	Forward Currency Contracts	Spot Currency Contracts	Totals
Australian Dollar	$ (53,317)	$ 241	$ (53,076)
Brazilian Real	—	(613)	(613)
British Pound Sterling	(12,622)	3,485	(9,137)
Canadian Dollar	19,595	(205)	19,390
Danish Krone	4,101	(512)	3,589
Egyptian Pound	—	(38)	(38)
Euro	(115,044)	(12,325)	(127,369)
Hong Kong Dollar	13,369	16,544	29,913
Indian Rupee	(5,134)	—	(5,134)
Japanese Yen	(133,110)	22	(133,088)
Malaysian Ringgit	—	346	346
Mexican Peso	(90)	—	(90)
Polish Zloty	(8)	—	(8)
South African Rand	2,011	—	2,011
Singapore Dollar	435	—	435
Swedish Krona	(30,543)	(740)	(31,283)
Swiss Franc	(4,501)	(294)	(4,795)
Thai Baht	(4,494)	—	(4,494)
U.S. Dollar	314,014	(5,926)	308,088
Total	$ (5,338)	$ (15)	$ (5,353)

(7) Securities Lending Program

Section 177-d of the RSSL 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 securities 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. As of March 31, 2015, 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, 2015.

The Fund lends fixed income, domestic equity, and international equity securities to approved broker/dealers. Collateral for securities loaned equals 102 percent of fair market value for domestic securities and 105 percent 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 that 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, 2015, the fair value of securities on loan was $13.60 billion. The associated collateral was $13.90 billion, of which $6.30 billion was cash collateral and $7.60 billion was securities. The cash collateral has been reinvested in other instruments, which had a fair value of $6.20 billion as of March 31, 2015. The securities lending obligations were $6.21 billion. The unrealized loss in invested cash collateral on March 31, 2015 was $10.60 million, which is reported in the combining statement of changes in fiduciary net position as part of "Net appreciation in fair value of investments."

All open security loans can be terminated on demand by either the Fund or the borrower. To provide sufficient liquidity, the policy of the Fund is to maintain a minimum of 10 percent collateral in overnight investments. While the Fund's 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, 2015 was 18 days. All loans were open loans. There were no direct matching loans.

On March 4, 2013 a securities lending collateral deficiency was realized in the amount of $127.14 million and agreed to be repaid to the lending agent through future earnings commencing with revenues earned effective April 1, 2013 and continuing in the future until the deficiency is reimbursed in full. The securities lending collateral deficiency is due to a loss in the reinvestment of cash collateral. Investment guidelines have been strengthened to mitigate future losses. At March 31, 2015 the balance of the securities lending collateral deficiency was $69.52 million.

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

(8) Net Pension Liability of Participating Employers

The components of the net pension liability of the employers as of March 31, 2015, were as follows:

	Employees' Retirement System	Police and Fire Retirement System	Total
		(Dollars in Thousands)	
Employers' total pension liability	$ 164,591,504	$ 28,474,417	$ 193,065,921
Fiduciary net position	(161,213,259)	(28,199,157)	(189,412,416)
Employers' net pension liability	$ 3,378,245	$ 275,260	$ 3,653,505
Ratio of fiduciary net position to the employers' total pension liability	97.9%	99.0%	98.1%

(a) Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions:

	ERS	PFRS
Inflation	2.7%	2.7%
Salary increases	4.9	6.0
Investment rate of return (net of investment expense, including inflation)	7.5	7.5

Annuitant mortality rates are based on April 1, 2005 – March 31, 2010 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

The long term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 (see Investment policy - note 4(a)) are summarized below:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	7.30%
International equity	8.55
Private equity	11.00
Real estate	8.25
Absolute return strategies	6.75
Opportunistic portfolio	8.60
Real assets	8.65
Bonds and mortgages	4.00
Cash	2.25
Inflation-indexed bonds	4.00

(b) Discount Rate

The discount rate used to calculate the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(c) Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability of the employers calculated using the current-period discount rate assumption of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage-point lower (6.5 percent) or one percentage-point higher (8.5 percent) than the current assumption (in thousands):

	One Percent Decrease (6.5%)	Current Assumption (7.5%)	One Percent Increase (8.5%)
ERS net pension liability (asset)	$ 22,517,463	$ 3,378,245	$ (12,780,001)
PFRS net pension liability (asset)	$ 3,664,937	$ 275,260	$ (2,565,495)

(9) Federal Income Tax Status

ERS and PFRS are qualified defined benefit retirement plans under section 401(a) of the Internal Revenue Code and are exempt from federal income taxes. ERS and PFRS last received favorable determination letters from the Internal Revenue Service dated August 28, 2014 stating that ERS and PFRS are in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the System's financial statements.

(10) Commitments

As of March 31, 2015, the System had contractual commitments totaling $7.93 billion to fund future private equity investments, $2.73 billion to fund future real estate investments, $1.06 billion for opportunistic funds, $240 million for absolute return strategy funds and $140 million to fund future real asset investments.

(11) 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

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Changes in the Employers’ Net Pension Liability and Related Ratios

Year Ended March 31, 2015

(Unaudited)

(Dollars in Thousands)

	Employees’ Retirement System	Police and Fire Retirement System
Total pension liability:		
Service cost	$ 2,989,807	$ 625,648
Interest	11,581,437	1,997,215
Difference between expected and actual experience	135,177	39,833
Benefit payments	(8,829,751)	(1,606,417)
Other, net	(77,388)	(158)
Net change in total pension liability	5,799,282	1,056,121
Total pension liability–beginning	158,792,222	27,418,296
Total pension liability–ending (a)	164,591,504	28,474,417
Fiduciary net position:		
Contributions–employer	4,893,110	904,339
Contributions–member	272,004	12,789
Net investment income (loss)	10,582,102	1,862,789
Benefit payments	(8,829,751)	(1,606,417)
Refunds of contributions	(77,388)	(158)
Administrative expense	(93,357)	(13,794)
Other additions	193,176	37,623
Net change in fiduciary net position	6,939,896	1,197,171
Fiduciary net position–beginning	154,273,363	27,001,986
Fiduciary net position–ending (b)	161,213,259	28,199,157
Net pension liability–ending (a) – (b)	$ 3,378,245	$ 275,260
Ratio of fiduciary net position to total pension liability	97.9%	99.0%
Covered-employee payroll	$ 24,480,045	$ 3,257,100
Net pension liability as a percentage of covered-employee payroll	13.8%	8.5%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors’ report and notes to required supplementary information.

Schedule 2

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of the Employer Contributions

(Unaudited)

Year Ended March 31, 2015

(Dollars in Millions)

Employees' Retirement System

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution (1)	$ 4,893	5,138	4,524	3,879	3,623	1,879	1,963	2,135	2,216	2,349
Contributions in relation to the actuarial determined contribution (2)	4,893	5,138	4,524	3,879	3,623	1,879	1,963	2,135	2,216	2,349
Contribution deficiency (excess)	$ —	—	—	—	—	—	—	—	—	—
Covered-employee payroll (3)	$ 24,480	24,361	24,405	24,291	24,389	24,972	24,099	22,779	22,018	20,919
Contributions as a percentage of covered-employee payroll	19.99%	21.09%	18.54%	15.97%	14.86%	7.52%	8.15%	9.37%	10.06%	11.23%

Police and Fire Retirement System

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution (1)	$ 904	926	812	706	542	465	493	513	502	433
Contributions in relation to the actuarial determined contribution (2)	904	926	812	706	542	465	493	513	502	433
Contribution deficiency (excess)	$ —	—	—	—	—	—	—	—	—	—
Covered-employee payroll (3)	$ 3,257	3,233	3,163	3,191	3,146	3,113	2,970	2,926	2,825	2,712
Contributions as a percentage of covered-employee payroll	27.76%	28.64%	25.67%	22.12%	17.23%	14.94%	16.60%	17.53%	17.77%	15.97%

(1) The actuarially determined contribution includes normal costs, the GLIP amounts, adjustments made to record the reconciliation of projected salary to actual salary and miscellaneous accounting adjustments.

(2) The contributions in relation to the actuarially determined contribution reflects actual payments and installment payment plans.

(3) Covered-employee payroll represents pensionable payroll.

See accompanying independent auditors' report and notes to required supplementary information.

Schedule 3

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Investment Returns

Year Ended March 31, 2015

(Unaudited)

	2015
Annual money-weighted rate of return, net of investment expenses	6.98%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

Changes in benefit terms. There were no significant legislative changes in benefits for the April 1, 2013 actuarial valuation.

Changes of assumptions. There were no significant changes in actuarial assumption for the April 1, 2013 actuarial valuation.

Methods and assumptions used in calculations of actuarially determined contributions. The April 1, 2013 actuarial valuation determines the employer rates for contributions payable in fiscal year 2015. The following actuarial methods and assumptions were used:

Actuarial cost method	The system is funded using the Aggregate Cost Method, all unfunded actuarial liabilities are evenly (as a percentage of projected pay) amortized over the remaining worker lifetimes of the valuation cohort.
Asset valuation period	5-year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.
Inflation	2.7%
Salary scale	4.9% in ERS, 6.0% in PFRS, indexed by service
Investment Rate of Return	7.5% compounded annually, net of investment expenses, including inflation.

See accompanying independent auditors' report.

ADDITIONAL SUPPLEMENTARY INFORMATION

Schedule 4

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Administrative Expenses

Year Ended March 31, 2015

(Dollars in Thousands)

Personal services:		
Salaries	$	51,802
Overtime salaries		2,060
Fringe benefits		32,305
Total personal services		86,167
Building occupancy expenses:		
Building, lease and condominium fees		3,648
Utilities and municipal assessments		65
Office supplies and services		904
Telephone		1,024
Total building occupancy expenses		5,641
Computer expenses:		
IT shared services[1]		9,222
Total computer expenses		9,222
Personal and operating expenses:		
Training		379
Travel and auto expenses – includes pre-retirement seminars		1,022
Postage – includes member and retiree communication		1,164
Printing – includes member and retiree communication		434
Subscriptions/memberships		184
Total personal and operating expenses		3,183
Professional expenses:		
Audit services		1,148
Medical/clinical services		1,133
Miscellaneous consulting services		657
Total professional expenses		2,938
Total	$	107,151

[1]The System is implementing a shared service, information technology (IT) model within the Office of the State Comptroller, wherein all IT costs, including personal services, will be incorporated into the IT shared services and reflected as nonpersonal service expenditures.

See accompanying independent auditors' report.

Schedule 5

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Investment Expenses

Year Ended March 31, 2015

(Dollars in Thousands)

Investment expenses:		
Investment management and incentive fees:		
Absolute return strategy funds	$	226,947
Private equity		134,019
International equity		76,134
Real estate		54,177
Domestic equity		47,475
Opportunistic funds		16,072
Real assets		4,410
Fixed income		1,606
Total investment management and incentive fees		560,840
Investment-related expenses:		
Miscellaneous expenses		5,044
Data processing expenses/licenses		4,542
Private equity consulting and monitoring		3,171
Mortgage loan servicing fees		3,004
Real estate consulting and monitoring		2,135
General consulting		1,817
Absolute return strategy consulting and monitoring		1,566
Administrative expenses		1,450
Legal fees		1,141
Audit and audit-related fees		224
Domestic equity consulting and monitoring		67
Global equity consulting		55
Custodial fees		10
Total investment-related expenses		24,226
Total investment expenses	$	585,066

See accompanying independent auditors' report.

Schedule 6

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule of Consulting Fees

Year Ended March 31, 2015

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

		Amount	Nature
KPMG LLP	$	371,015	Audit Services
FCME Management, Inc.		325,219	Medical Services
D & D Medical Associates, PC		256,550	Medical Services
Bryan, Cave LLP		190,999	Legal Services
Morgan, Lewis & Bockius, LLP		173,383	Legal Services
Mayer, Brown LLP		138,484	Legal Services
Korn Ferry International		132,194	Recruitment Services
K&L Gates, LLP		128,175	Legal Services
Foster, Pepper & Shefelman, PLLC		127,673	Legal Services
Specialty Consultants		120,231	Recruitment Services
Nixon Peabody, LLP		108,845	Legal Services
Regional Orthopaedics, PLLC		86,050	Medical Services
Jackson Walker, LLP		76,890	Legal Services
Jeffrey M. Meyer MD, PLLC		75,062	Medical Services
CEM Benchmarking, Inc.		65,000	Industry Measurement Survey
John S. Mazella MD, PC		49,450	Medical Services
Groom Law Group		48,259	Legal Services
Simaren Corp.		35,975	Security Services
KMQ Enterprises Inc.		33,350	Recruitment Services
Groom Law Group		32,428	Tax Consultant
Louis Benton, MD		32,100	Medical Services
DALCO Reporting, Inc.		27,907	Court Reporting
Seward & Kissel, LLP		27,855	Legal Services
Pine Bush Mental Health, LLP		27,625	Medical Services
Riverside Orthopaedic & Sports Medicine Assocs.		25,050	Medical Services

See accompanying independent auditors’ report.

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the New York State and Local Retirement System (the System), which comprise the combining statement of fiduciary net position as of March 31, 2015, and the related combining statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

July 17, 2015