STATE-BOSTON RETIREMENT SYSTEM

(A Component Unit of the City of Boston, Massachusetts)

Financial Statements and Required Supplementary Information

December 31, 2010

(With Independent Auditors' Report Thereon)

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Retirement Board of Boston:

We have audited the accompanying statement of plan net assets of the State-Boston Retirement System (the System), a component unit of the City of Boston, as of December 31, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System at December 31, 2010, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 5 and the supplementary schedules of funding progress and employers' contributions on page 19 are not required parts of the basic financial statements of the System, 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 them.

KPMG LLP

September 14, 2011

The following discussion provides an overview and analysis of the changes in plan net assets of the State-Boston Retirement System (the System or Plan) by management for the year ended December 31, 2010.

Overview of the Financial Statements

The System's financial statements comprise a statement of plan net assets, statement of changes in plan net assets, and notes to the financial statements.

The Statement of Plan Net Assets presents information on the System's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables, and other assets and liabilities.

The Statement of Changes in Plan Net Assets presents information showing how the System's net assets held in trust for pension benefits changed during the year ended December 31, 2010. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income from investing and securities lending activities is also presented.

The Notes to the Financial Statements provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

The Required Supplementary Information includes management's discussion and analysis and schedules of funding progress and employers' contributions.

Financial Highlights and Analysis

- Net assets are available for payment of monthly retirement benefits and other qualified distributions to the System's participants. Net assets held in trust for pension benefits were $4.6 billion at December 31, 2010 compared to $4.0 billion at December 31, 2009. The increase in net assets of $0.6 billion resulted primarily from an increase in the fair value of portfolio investments and investment income.
- The System's equity and fixed income investments comprised 56.0% of invested assets; the remaining 44.0% of investments were invested in real estate investments (6.2%), alternative investments, including private equity and hedge fund of funds investments (10.1%), PRIT General Fund (26.0%) and short-term investments (1.7%).
- Receivables increased by $95.4 million at December 31, 2010, primarily due to an increase in receivable for securities sold of $82.1 million and an increase in contributions receivable from employers by $14.0 million.
- Liabilities increased by $28.4 million at December 31, 2010, primarily due to an increase in payable for securities purchased of $105.6 million offset by a decrease in collateral held on securities lending transactions of $83.6 million.
- During 2010, in accordance with Massachusetts General Law, the System remitted approximately $1.1 billion to the Pension Reserves Investment Management Board (PRIM) to invest in its trust. The purpose was to place assets related to the City of Boston Teachers in the control of the Commonwealth of Massachusetts, who is responsible for the employer portion of the City of Boston Teachers retirement.

(Continued)

- Employers' contributions are made in accordance with a funding schedule approved by the Massachusetts Public Employee Retirement Administration Commission. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2011, the funded ratio was 62.2%.

  In 2010, employer contributions increased by 53% due to $208.8 million in contributions received from the City of Boston that was not received in 2009. The City of Boston contributed an extra $82 million that was included in their Actuarially Required Contribution (ARC) and contributed an extra $126.8 million that was not included in their ARC.

Condensed Financial Information
(In thousands)

Assets	**2010**	**2009**	**Percentage change 2010 – 2009**
Cash	$ 114,716	24,063	376.7%
Receivables	251,606	156,233	61.0
Investments	4,397,582	3,848,711	14.3
Securities lending short-term collateral investment pool	214,410	299,975	(28.5)
Total assets	4,978,314	4,328,982	15.0
Liabilities			
Payables	141,261	29,221	383.4
Collateral held – securities lending	216,333	299,975	(27.9)
Total liabilities	357,594	329,196	8.6
Net assets	$ 4,620,720	3,999,786	15.5

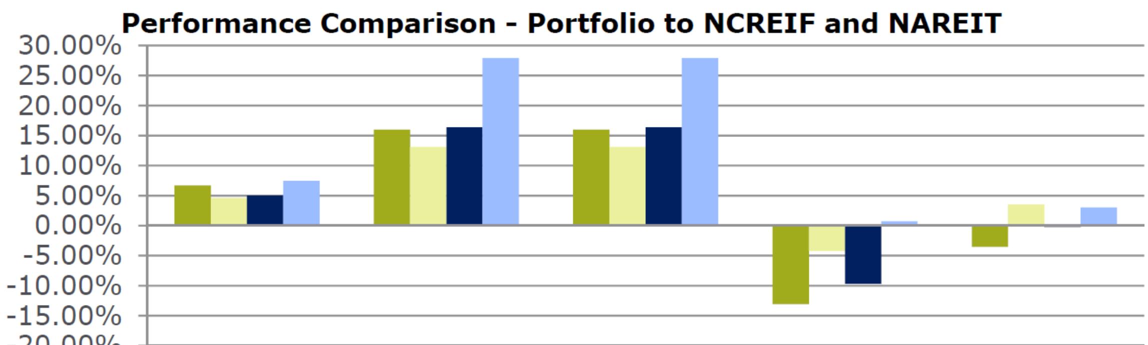
Additions		2010	2009	Percentage change 2010 – 2009
Total contributions	$	590,106	384,876	53.3%
Net investment income		520,508	627,678	17.1
Intergovernmental		12,850	14,914	(13.8)
Total additions		1,123,464	1,027,468	(9.3)
Deductions				
Benefit payments		444,535	415,756	6.9
Other		57,995	28,815	101.3
Total deductions		502,530	444,571	13.0
Net increase in plan assets	$	620,934	582,897	6.5

Plan Investments

- The total investment return for 2010 was approximately 13.5%. Allocation decisions detracted 70 basis points from performance, and active management added 160 basis points. In 2010, the majority of the System’s active managers outperformed their respective indices.
- In 2010, the large cap equity composite returned 17.5% and outperformed the S&P 500 Index, which returned 15.1%. The small cap composite returned 26.4%, underperforming the Russell 2000 Index, which returned 26.9%.
- The international equity portfolio, which includes investments in both international developed and emerging markets equity, posted a return of 12.3%. Emerging markets continued to outpace international developed markets in 2010, with the MSCI EM outperforming the MSCI EAFE by 11.1%.
- Domestic fixed income investments posted positive returns in 2010, and gained 7.5%, outperforming the Barclays Aggregate Bond Index, which gained 6.5%. On an absolute basis, the System’s high yield manager performed well in 2010, gaining 14.2%, outperforming its benchmark, the BC High Yield, by 30 basis points in 2010.
- The System’s global bond manager, Loomis, returned 8.8% in 2010 outperforming the Citigroup World Government Bond Index by 360 basis points.

(Continued)

- Real estate investments yielded a return of 16.0% in 2010. The System's real estate is a combination of core and value-add investment strategies. In 2010, the System committed $15 million to Distressed Real Estate and $12 million to Opportunistic. A comparison of the real estate portfolio's performance for 2010 against several real estate benchmarks is shown below:



	Quarter	Year To Date	One Year	Three Year	Five Year
SBRS	6.70%	15.96%	15.96%	-13.07%	-3.54%
NCREIF - NPI	4.62%	13.10%	13.10%	-4.20%	3.50%
NCREIF - ODCE	4.99%	16.40%	16.40%	-9.70%	-0.20%
NAREIT	7.43%	27.90%	27.90%	0.70%	3.00%

- Private equity performance for 2010 was 11.7%. The System remains committed to the private equity portfolio and plans continued investment. During 2010, the System made additional commitments of $7.5 million to Mezzanine.

- The System's hedge fund composite gained 5.4% in 2010. The diverse hedge fund portfolio posted returns that ranged from (1.6)% to 12.2%. For the same period, the HFRI Fund of Funds Index returned 5.7%.

- The PRIT Pooled Fund reflected a return of 15.31% for 2010. Allocations to equity, which comprised more than 40% of the portfolio, drove results in the last half of the year as equities continued to rally more than 20% globally.

Other Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Boston Retirement Board, Boston City Hall, Room 816, Boston, Massachusetts 02201.

STATE-BOSTON RETIREMENT SYSTEM
(A Component Unit of the City of Boston, Massachusetts)

Statement of Plan Net Assets

December 31, 2010

(In thousands)

Assets:		
Cash and cash equivalents	$	114,716
Investments, at fair value (note 3):		
Short-term:		
Domestic		67,958
International		7,577
Equity:		
Domestic		1,037,245
International		742,532
Fixed income:		
Domestic		504,879
International		178,939
PRIT Pooled Fund		1,145,318
Real estate		272,659
Alternative		440,475
Total investments, at fair value		4,397,582
Securities lending short-term collateral investment pool (note 3)		214,410
Receivables:		
Receivable for securities sold		90,340
Accrued interest, dividends and other receivables		20,624
Contributions receivable from employers:		
Commonwealth of Massachusetts		121,290
City of Boston		9,147
Other employers		10,205
Total receivables		251,606
Total plan assets		4,978,314
Liabilities:		
Payable for securities purchased		114,507
Accounts payable, accrued expenses and other liabilities		26,754
Collateral held on securities lending transactions (note 3)		216,333
Total plan liabilities		357,594
Net plan assets held in trust for pension benefits (see note 5 and schedule of funding progress on page 19)	$	4,620,720

See accompanying notes to financial statements.

STATE-BOSTON RETIREMENT SYSTEM
(A Component Unit of the City of Boston, Massachusetts)

Statement of Changes in Plan Net Assets

Year ended December 31, 2010

(In thousands)

Additions:		
Contributions:		
Employers	$	463,656
Employees		126,450
Total contributions		590,106
Investment income:		
Interest and dividends		94,165
Realized and unrealized gains on investments		440,862
Less management and related fees		(15,648)
Net investment income		519,379
Securities lending activity:		
Securities lending income		1,814
Less borrower rebates and fees (note 3)		(685)
Net income from securities lending activities		1,129
Total net investment income		520,508
Intergovernmental		12,850
Total additions		1,123,464
Deductions:		
Benefit payments to plan members and beneficiaries		444,535
Reimbursements to other systems		9,533
Refunds of contributions and transfers to other systems		42,627
Administrative and other expenses		5,835
Total deductions		502,530
Net increase in plan net assets		620,934
Net assets held in trust for pension benefits:		
Beginning of year		3,999,786
End of year	$	4,620,720

See accompanying notes to financial statements.

(1) Plan Description

The following description of the State-Boston Retirement System (the System or the Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more detailed information.

(a) General

The Plan is a cost-sharing, multiple-employer defined benefit pension plan established under Chapter 32 of the Massachusetts General Laws (M.G.L.). The Plan provides pension benefits for participating employees of the following Plan member governmental units:

- City of Boston (the City)
- Commonwealth of Massachusetts (City of Boston Teachers)
- Boston Redevelopment Authority
- Boston Housing Authority
- Boston Water and Sewer Commission
- Public Health Commission
- Sheriff of Suffolk County (Retirees as of 12/31/09, funded by the City)

At December 31, 2010, System membership consisted of:

Plan members	19,663
Retirees and beneficiaries receiving benefits	14,067
Terminated members entitled to but not yet receiving benefits	14,551
Total membership	48,281
Number of participating employers	6

The Commonwealth of Massachusetts (the Commonwealth) is responsible for funding the employer portion of all teacher pensions in the Commonwealth. All teachers in the Commonwealth are members of the Massachusetts Teachers Retirement System with the exception of teachers employed by the City of Boston (Boston Teachers), who are members of the System. Although Boston Teachers are members of the System, the Commonwealth is the responsible contributing employer.

(b) Significant Provisions and Requirements

Participation in the System is mandatory for all permanent, full-time employees immediately upon the commencement of employment. Participants who resign from employment and who are not eligible to receive a retirement allowance or who are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending on the number of years of creditable service, such participants are entitled to receive either none, 50%, or 100% of the regular interest which has accrued on those deductions.

Employees with 10 or more years of service are entitled to pension benefits beginning at retirement age 55; an earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification. Participants become vested after 10 years of creditable service. Effective July 1, 1998, Chapter 32 of the M.G.L. assigns to the local retirement boards authority to establish and amend benefit provisions of the Plan and grant cost-of-living increases.

If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump-sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether or not the disability is work related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial statements.

(b) Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting.

(c) Revenue Recognition

Contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned.

(d) Benefits and Refunds

Benefits and refunds to Plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the Plan.

(e) Valuation of Investments

Investments are reported at fair value. Fair values of securities held directly are based on quotations from national securities exchanges, except for pooled and commingled funds, alternative investments, and real estate, for which fair values are estimated as detailed below.

Pooled Funds

The fair value of shares in managed investment pools is based on unit values reported by the funds.

Alternative Investments

Alternative investments include hedge funds, holdings through limited partnerships of various types of venture capital funds, including equity interests in early, middle, and later stage companies, as well as debt and equity interests in buyouts, acquisitions, restructurings, mezzanine structures and special situations. Such investments are recorded at fair value after consideration of pertinent information, including current financial position, and operating results, price-earnings multiples, and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition, and other appropriate information. Values assigned to such investments are based on available information and do not necessarily represent amounts that may ultimately be realized in liquidation. Liquidation values depend largely on future circumstances, including marketability, and frequently cannot reasonably be estimated until at or near the liquidation date.

Real Estate

Real estate investments consist of interests in commercial properties held by various partnerships and other limited liability entities, some of which utilize debt financing. Fair values of such holdings are reported based on the net asset values of the entities, which are estimated using third-party appraisals and other information provided by property managers.

(f) Basis of Investment Transactions

Purchases and sales of investments are recorded on the trade date. Transactions unsettled as of year-end are recorded as payables for securities purchased and as receivables for securities sold.

(g) 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 contingent assets and liabilities at the dates of the financial statements and the reported amounts of additions and deductions during the reporting periods. Actual results could differ from estimates. Fair values of real estate and alternative investment holdings are generally estimated absent readily available market values, and such estimates may be materially different from values that would have been used if a ready market existed.

(h) Foreign Currency Contracts

The System's investment policy permits the System to enter into forward foreign currency contracts for the purpose of hedging foreign currency fluctuations. A forward foreign currency contract is an agreement between two parties to buy or sell a fixed quantity of currency at a set price on a future date. The System may enter into forward foreign currency contracts to hedge its exposure to the effect of changes in foreign currency exchange rates upon its non-U.S. dollar-denominated investments. The contracts are valued daily, and the changes in fair value are recorded by the System as unrealized gains or losses. When the contract is closed, the System records a realized gain or loss equal to the difference between the cost of the contract at the time it was opened and the value at the time it was closed.

(3) Cash Deposits, Investments, Securities Lending, and Derivatives

The following disclosures represent essential risk information about the System's deposits and investments.

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2010, all of the System's deposits were insured or collateralized.

(b) Investment Policy

The provisions of M.G.L. C. 32, Sec 23(2) govern the System's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. C. 32, Sec 3(3), the Prudent Person rule.

The System has retained an investment consultant to work with the Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), real estate, private equity, and hedge funds.

(c) Interest Rate Risk

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2010:

Investment type		Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds	$	29,742	—	9,700	4,410	15,632
U.S. agencies		26,657	—	2,459	4,872	19,326
Domestic corporate		340,434	13,873	146,814	147,635	32,112
Municipal		2,134	—	—	—	2,134
International corporate		56,066	1,234	18,995	15,056	20,781
International government		122,873	—	60,818	43,314	18,741
Short-term investment funds		75,535	75,535	—	—	—
Asset-backed:						
CMOs		31,689	—	525	362	30,802
Mortgage-backed		57,660	1	—	2,849	54,810
Other		16,563	—	7,426	4,637	4,500
	$	759,353	90,643	246,737	223,135	198,838

The System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2010 are highly sensitive to changes in interest rates.

(d) Credit Risk

The System allows investment managers to apply discretion under the Prudent Person rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

The System's fixed income investments as of December 31, 2010 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	$ 26,657	19,353	1,057	1,144	391	—	—	—	4,712
Domestic corporate	340,434	3,928	23,775	93,002	32,831	43,485	70,616	748	72,049
Municipal	2,134	—	688	1,446	—	—	—	—	—
International corp.	56,066	21,525	477	3,961	12,787	6,243	4,592	—	6,481
International gov't	122,873	64,363	31,329	11,488	2,348	1,623	953	—	10,769
Short-term investment funds	75,535	75,535	—	—	—	—	—	—	—
Asset-backed:									
CMOs	31,689	22,655	1,856	1,341	36	—	—	—	5,801
Mortgage-backed	57,660	49,691	—	—	—	—	—	—	7,969
Other	16,563	15,446	—	—	—	38	55	—	1,024
	$ 729,611	272,496	59,182	112,382	48,393	51,389	76,216	748	108,805

In addition to the above schedule, the System has approximately $29.7 million invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

(e) Concentration Risk

The System has no investments, at fair value, except for pooled funds, that exceed 5% of the System's total investments as of December 31, 2010.

The System adheres to the provisions of M.G.L. C. 32, Sec 23(2) when managing concentration risk.

(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. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies.

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table (in thousands):

Currency	Cash and short-term investments	Fixed income	Equity	Alternative	Total
Australian dollar	$ 322	1,205	35,078	—	36,605
Brazilian real	1,066	428	15,081	—	16,575
Canadian dollar	765	6,463	9,048	—	16,276
Danish krone	121	3,279	3,287	—	6,687
Euro currency	589	40,412	181,193	5,732	227,926
Hong Kong dollar	279	—	26,254	—	26,533
Indian rupee	3	657	13,850	—	14,510
Indonesian rupiah	18	2,495	4,687	—	7,200
Israeli shekel	8	—	706	—	714
Japanese yen	1,313	45,080	115,192	—	161,585
Malaysian ringgit	223	1,693	2,921	—	4,837
Mexican peso	91	2,232	4,549	—	6,872
New Taiwan dollar	275	—	1,663	—	1,938
New Zealand dollar	30	1,029	250	—	1,309
Norwegian krone	392	3,233	6,452	—	10,077
Pakistan rupee	1	—	913	—	914
Peruvain Nouveau sol	—	855	—	—	855
Philippine peso	—	893	—	—	893
Polish zloty	3	1,894	467	—	2,364
Pound sterling	354	11,212	94,274	—	105,840
Singapore dollar	292	8,760	12,515	—	21,567
South African rand	57		8,728	—	8,785
South Korean won	88	3,327	9,481	—	12,896
Swedish krona	614	4,007	19,186	—	23,807
Swiss franc	46	2,052	38,529	—	40,627
Turkish lira	—	—	3,213	—	3,213
Total securities subject to foreign currency risk	6,950	141,206	607,517	5,732	761,405
U.S. dollars (securities held by international investment managers)*	7,563	37,733	135,015	—	180,311
Total international investment securities	$ 14,513	178,939	742,532	5,732	941,716

* Short-term investments include cash of approximately ($14).

(g) PRIT Pooled Fund

The Commonwealth enacted Chapter 112, Section 17 of the Acts of 2010 that requires the System to invest all assets, current and future, related to Boston Teachers in the Pension Reserves Investment Trust (PRIT) fund. The PRIT fund is an external investment pool that is not registered with the Securities Exchange Commission.

The fair value of the PRIT fund is based on unit value as reported by management of the PRIT fund. The PRIT fund issues separately available audited financial statements with a year-end of June 30.

On July 1, 2010, the System transferred 27% of its assets, or $1.1 billion, to the PRIT Fund. As of December 31, 2010, the System had the following amounts invested in the PRIT fund (in thousands):

General Allocation Account	$	1,145,318
Cash Fund		7,097
	$	1,152,415

As of December 31, 2010, the General Allocation Account is diversified into the following asset classes:

Asset class	Percentage
Core Fixed Income	12.7%
Domestic Equity	22.4
Emerging Markets	6.8
Hedge Funds	6.9
International Equity	21.9
Port. Alpha Wind Down	0.7
Private Equity	10.2
Real Estate	8.0
Timber Natural Res.	4.1
Value-Added Fixed Inc.	6.3
Total	100.0%

(h) Securities Lending Transactions

The Public Employee Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, who lends certain securities owned by the System to broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities-lending transactions on demand.

(Continued)

At the System's direction, the custodian lends the System's securities and receives cash (including both U.S. and foreign currency), U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2010. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2010, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System.

At December 31, 2010, the fair value of securities loaned by the System amounted to $254,979,664, against which was held collateral of $262,028,590 as follows (in thousands):

Short-term collateral investment pool	$	216,307
Noncash collateral		45,721
	$	262,028

(i) Commitments

At December 31, 2010, the System had contractual commitments to provide $58 million of additional funding to private equity funds, and $56 million to real estate funds.

(j) Derivatives

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations.

(4) Funding Policy

Participating employers are required to pay into the System their share of the remaining actuarially determined contribution and plan administration costs, which are apportioned among the participating employers based on an actuarial computation.

The participating employers' budgeted contributions to the System for the employer fiscal years ended June 30 were as follows (in thousands):

		2011	2010	2009
City of Boston	$	186,561	107,359	204,992
Commonwealth of Massachusetts (Teachers)		121,290	115,986	—
Sheriff of Suffolk County		4,343	10,933	12,506
Boston Housing Authority		7,746	6,430	6,972
Public Health Commission		9,752	9,733	11,412
Boston Redevelopment Authority		1,678	1,739	2,187
Boston Water and Sewer Commission		5,414	5,167	6,230
	$	336,784	257,347	244,299

For the year ended December 31, 2010, the System was due $336.8 million from all employers but received $463.7 million in employer contributions. The excess of $126.8 million was a one-time contribution from the City of Boston to help reduce the unfunded liability of the System.

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975, 7% if hired after that date and before January 1, 1984, 8% if hired after that date and before July 1, 1996, and 9% if hired after July 1, 1996. Employees hired after January 1, 1979 contribute an additional 2% of earnings in excess of $30,000 per year. Additionally, teachers who became members of the System after June 30, 2001, or other teachers who elect this option, are required by law to contribute 11% of their salary. Overtime and extra pay are not subject to these assessments.

(5) Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31, 2010 were as follows (in thousands):

			Purpose
Annuity Savings Fund	$	1,396,967	Active members' contribution balance
Annuity Reserve Fund		451,582	Retired members' contribution account
Military Service Fund		50	Members' contribution account while on military leave
Pension Reserve Fund		2,445,990	Amounts appropriated to fund future retirement benefits
Pension Fund		326,131	Remaining net assets
	$	4,620,720	

All reserve accounts are funded at levels required by state statute.

(6) Funded Status and Funding Progress

The funded status of the System as of January 1, 2011 is as follows (in thousands):

Actuarially accrued liability (AAL)	$	7,382,907
Actuarial value of plan assets		4,592,675
Unfunded actuarial accrued liability (UAAL)	$	2,790,232
Funded ratio (actuarial value of plan assets/AAL)		62.2%
Covered payroll (active plan members)	$	1,371,363
UAAL as a percentage of covered payroll		203.5%

In the January 1, 2011 actuarial update, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8% investment rate of return, projected salary increases of 5%, and cost-of-living adjustments of 3% up to $12,000 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2011 was 15 years.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(7) Contingencies

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

(8) Commitments

During fiscal year 2008, the System signed a memorandum of understanding with the City for the purpose of financing the development, design, purchase, and installation of a Pension Management System. Upon completion of the Pension Management System, the City will transfer the completed asset to the System. The System is committed to repaying the City $14 million, of which approximately $3 million has been paid through December 31, 2010.

(9) Transfer of Sheriffs to Suffolk Count

On January 1, 2010, in accordance with Chapter 61 of the Acts of 2009, sheriffs of Suffolk County, and their respective retirement annuity savings funds totaling $52.2 million, were transferred to the Commonwealth. Furthermore, retirees who retired as employees of the Suffolk County Sheriff Department prior to January 1, 2010, will remain members of the System and the respective pension liability will remain the obligation of the City.

STATE-BOSTON RETIREMENT SYSTEM
(A Component Unit of the City of Boston, Massachusetts)

Required Supplementary Information

Schedules of Funding Progress and Employers' Contributions

Year ended December 31, 2010

(Unaudited)

(Dollars in thousands)

Schedule of funding progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
1/1/2011	$ 4,592,675	7,382,907	2,790,232	62.2%	$ 1,371,363	203.5%
1/1/2010	4,270,893	7,091,018	2,820,125	60.2	1,306,060	215.9
1/1/2009	4,089,989	6,900,229	2,810,240	59.3	1,364,068	206.0
1/1/2008	4,458,002	6,596,148	2,138,146	67.6	1,299,112	164.6
1/1/2007	4,138,146	6,223,154	2,085,008	66.5	1,221,404	170.7
1/1/2006	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4

Schedule of employers' contributions

Year ended December 31	Annual required contribution	Percentage contributed
2010	$ 336,784	138%
2009	257,348	100
2008	244,299	100
2007	221,865	100
2006	217,088	100
2005	191,132	100

See accompanying independent auditors' report.