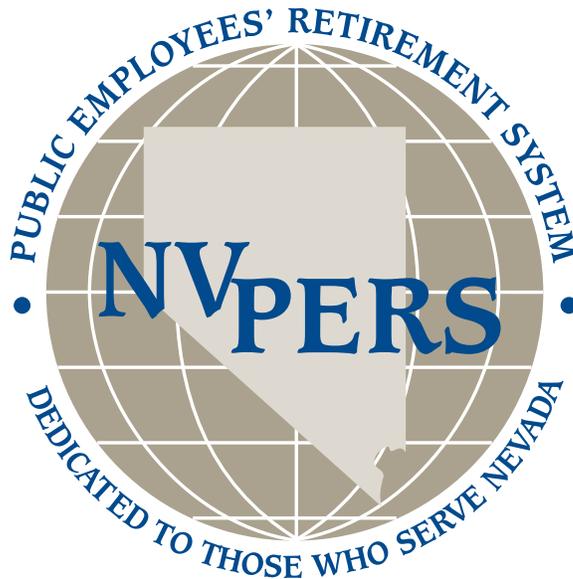


ANNUAL FINANCIAL REPORT
of the
LEGISLATORS' RETIREMENT SYSTEM
OF NEVADA
(a Component Unit of the State of Nevada)



For the Fiscal Year Ended
June 30, 2011

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditor’s Report | 2 |
| Management’s Discussion and Analysis | 3 |
| Financial Statements: | |
| Statement of Fiduciary Net Assets | 7 |
| Statement of Changes in Fiduciary Net Assets | 8 |
| Notes to Financial Statements | 9 |
| Required Supplementary Information: | |
| Schedule of Funding Progress | 24 |
| Schedule of Employer Contributions | 24 |

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT



Independent Auditor's Report

Public Employees' Retirement Board
of the State of Nevada
Carson City, Nevada

We have audited the accompanying financial statements of the Legislators' Retirement System of Nevada (the System), a component unit of the State of Nevada as of and for the year ended June 30, 2011, as listed in the table of contents. 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. The comparative totals for the year ended June 30, 2010 which are included for additional analysis have been derived from the Legislators' Retirement System of Nevada's 2010 financial statements and, in our report dated December 6, 2010, we expressed an unqualified opinion on such information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 as of June 30, 2011, and the changes in its fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 and the Schedules of Funding Progress and Employer Contributions on page 24 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Baltimore, Maryland
December 1, 2011



LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the financial performance of the Legislators' Retirement System of Nevada (System) provides an overview of the System's financial activities for the fiscal year ended June 30, 2011. The MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, while also showing three-year trends. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow the MD&A.

The System is responsible for administering retirement benefits for State of Nevada Legislators. The Nevada State Legislature (Legislature) meets on a biennial basis. Therefore, the actuarial valuation for the System is done on a biennial basis. Beginning with the current valuation, dated July 1, 2010, the valuation will be on the fiscal year instead of the calendar year, as was done previously.

Financial Highlights

As of June 30

| | 2011 | 2010 | 2009 |
|------------------------------|--------------|--------------|--------------|
| Total investments | \$ 4,500,637 | \$ 3,740,491 | \$ 3,411,579 |
| | | | |
| Net investment income (loss) | 795,453 | 496,129 | (773,156) |
| Contributions | 207,767 | 231,467 | 231,466 |
| | | | |
| Benefit payments | 456,050 | 399,368 | 413,310 |
| Administrative expenses | 84,335 | 46,962 | 73,059 |
| | | | |
| Net assets | \$ 4,315,631 | \$ 3,771,476 | \$ 3,441,367 |
| Percentage funded* | N/A | 74 % | 71 % |

* The 2009 percentage funded is from the January 1, 2009 calendar year actuarial valuation. The 2010 percentage funded is from the July 1, 2010 fiscal year actuarial valuation. The actuarial valuation is done on a biennial basis. The next valuation will be as of June 30, 2012.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The basic financial statements consist of the statement of fiduciary net assets, statement of changes in fiduciary net assets, notes to financial statements, and required supplementary information.

The statement of fiduciary net assets includes all of the System's pension trust fund assets, liabilities, and the net assets available at the end of the fiscal year. The statement of changes in fiduciary net assets reports additions to and deductions from the pension trust fund during the fiscal year presented. Over time, the increase or decrease in net assets held in trust for pension benefits serves as a useful indicator of the health of the System's financial position. The notes to the financial statements provide additional information required by generally accepted accounting principles. The required supplementary information following the notes to the financial statements consists of schedules of funding progress as well as employer contributions to the System.

Financial Analysis

The following are summary comparative statements of the System.

CONDENSED STATEMENTS OF FIDUCIARY NET ASSETS

| | <u>As of</u> <u>June 30, 2011</u> | <u>As of</u> <u>June 30, 2010</u> | <u>As of</u> <u>June 30, 2009</u> | Percentage Increase/ (Decrease) from 2010 to 2011 |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--|
| Cash and cash equivalents | \$ 18,786 | \$ 25,415 | \$ 423,707 | (26.1) % |
| Receivables | 12,263 | 7,014 | 22,795 | 74.8 |
| Investments, at fair value | <u>4,500,637</u> | <u>3,740,491</u> | <u>3,411,579</u> | 20.3 |
| Total assets | <u>4,531,686</u> | <u>3,772,920</u> | <u>3,858,081</u> | 20.1 |
| Accounts payable and accrued expenses | 1,887 | 550 | 2,896 | 243.1 |
| Pending trades payable | 6,401 | 894 | 182,352 | 616.0 |
| Deferred revenue | <u>207,767</u> | - | <u>231,466</u> | - |
| Total liabilities | <u>216,055</u> | <u>1,444</u> | <u>416,714</u> | 14862.3 |
| Net assets held in trust for pension benefits | <u>\$ 4,315,631</u> | <u>\$ 3,771,476</u> | <u>\$ 3,441,367</u> | 14.4 % |

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

For the Years Ended June 30,

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | Percentage Increase/ (Decrease) from 2010 to 2011 |
|-----------------------------------|---------------------|---------------------|---------------------|--|
| Contributions | \$ 207,767 | \$ 231,467 | \$ 231,466 | (10.2) % |
| Net investment income (loss) | 795,453 | 496,129 | (773,156) | 60.3 |
| Other income | 86,218 | 48,843 | 74,538 | 76.5 |
| Total additions | <u>1,089,438</u> | <u>776,439</u> | <u>(467,152)</u> | 40.3 |
| Benefit payments | 456,050 | 399,368 | 413,310 | 14.2 |
| Refunds of contributions | 4,898 | - | 3,510 | - |
| Administrative expenses | 84,335 | 46,962 | 73,059 | 79.6 |
| Total deductions | <u>545,283</u> | <u>446,330</u> | <u>489,879</u> | 22.2 |
| Increase (decrease) in net assets | 544,155 | 330,109 | (957,031) | 64.8 |
| Net assets, beginning of year | <u>3,771,476</u> | <u>3,441,367</u> | <u>4,398,398</u> | 9.6 |
| Net assets, end of year | <u>\$ 4,315,631</u> | <u>\$ 3,771,476</u> | <u>\$ 3,441,367</u> | 14.4 % |

Total cash and receivables decreased slightly from 2010 to 2011 due to the amount held in cash equivalents at the end of 2011.

The Legislature meets for 120 days beginning in February of each odd fiscal year. Employee and employer contributions for both the Legislative year and the following year are made during the Legislative session. Half of these contributions are deferred to the next fiscal year. As a result, each odd fiscal year will show deferred revenue while the even fiscal year will not.

Other income (and corresponding administrative expenses) increased from 2010 to 2011 as an actuarial valuation was not completed for the System for fiscal year 2011. The preparation of and payment for actuarial valuations occurs every second year; therefore, there is a fairly large swing in administrative expenses from year to year.

Special reminder notices are periodically sent to inactive, non-vested Legislators informing them of their eligibility to receive a refund of employee contributions made during their employment. The amounts paid out for these refunds are unpredictable from year to year. In 2011 refunds totaled \$4,898, while there were no refunds in 2010.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2010 the System began recovering from the investment losses of the prior two years and generated investment income of \$496,129. This recovery continued in 2011 and the System experienced investment income of \$795,453. The System generated returns for 2011 of 20.9%, outperforming its actuarial goal of 8.0%.

The above factors influenced an increase in the net assets held in trust for pension benefits between 2010 and 2011 of \$544,155 or 14.4%.

Actuarial Valuation

During fiscal year 2009 a decision was made to transition the actuarial valuation to a fiscal year measurement to promote consistency with the financial statements. Since valuations are performed on the System every two years, the length of time between valuations during the transition period for the System was eighteen months. A valuation was performed on January 1, 2009, and a valuation was performed as of July 1, 2010, for fiscal year 2010. In the future, valuations will be performed every second year. The next valuation will be as of June 30, 2012.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

(With Comparative Totals for June 30, 2010)

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 18,786 | \$ 25,415 |
| Receivables: | | |
| Pending trades receivable | 6,512 | 1,365 |
| Accrued investment income | 5,751 | 5,649 |
| Total receivables | <u>12,263</u> | <u>7,014</u> |
| Investments, at fair value: | | |
| Fixed income securities | 1,453,404 | 1,228,150 |
| Marketable equity securities | 2,759,711 | 2,304,057 |
| International securities | 287,522 | 208,284 |
| Total investments | <u>4,500,637</u> | <u>3,740,491</u> |
| Total plan assets | <u>4,531,686</u> | <u>3,772,920</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | 1,887 | 550 |
| Pending trades payable | 6,401 | 894 |
| Deferred revenue | 207,767 | - |
| Total plan liabilities | <u>216,055</u> | <u>1,444</u> |
| Net assets held in trust for pension benefits | <u>\$ 4,315,631</u> | <u>\$ 3,771,476</u> |

(A schedule of funding progress is presented on page 24)

The accompanying notes are an integral part of these financial statements.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

| | 2011 | 2010 |
|---|--------------|--------------|
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 182,093 | \$ 200,866 |
| Plan members | 25,674 | 30,601 |
| Total contributions | 207,767 | 231,467 |
| Investment Income: | | |
| Net appreciation in fair value of investments | 747,260 | 447,441 |
| Interest | 7,184 | 6,030 |
| Dividends | 42,138 | 43,479 |
| | 796,582 | 496,950 |
| Less investment fees and other expenses | 1,129 | 821 |
| Net investment income | 795,453 | 496,129 |
| Other income | 86,218 | 48,843 |
| Total additions | 1,089,438 | 776,439 |
| DEDUCTIONS | | |
| Benefit payments | 456,050 | 399,368 |
| Refunds of contributions | 4,898 | - |
| Administrative expenses | 84,335 | 46,962 |
| Total deductions | 545,283 | 446,330 |
| Increase in net assets | 544,155 | 330,109 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | 3,771,476 | 3,441,367 |
| End of year | \$ 4,315,631 | \$ 3,771,476 |

The accompanying notes are an integral part of these financial statements.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Public Employees' Retirement Board of the State of Nevada (Board) is the governing body of the System with responsibility for administration and management. This autonomous, seven-member Board is appointed by the Governor of the State of Nevada.

The System has developed criteria in accordance with standards issued by the Governmental Accounting Standards Board (GASB) to determine whether other state agencies, boards, and commissions, which benefit the members of the System, should be included within its financial reporting entity as component units. A component unit is defined as a legally separate organization for which officials of the System are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete.

In accordance with GASB, the following criteria are used when evaluating financial accountability: The ability of the System to appoint a voting majority of the organization's governing body and (1) the ability to impose its will on the other organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the System. In addition, the System may be financially accountable if an organization is fiscally dependent on the System regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The System has no relationship with another entity that meets the above criteria and has not included any other entity as a component unit of its financial reporting entity.

The System is classified as a component unit of the State of Nevada for financial reporting purposes in accordance with the provisions of GASB because the State Legislature retains certain significant governing powers over the System.

Basis of Accounting

The System uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned and become measurable. Per statute, employee and employer contributions are recognized in the reporting period for which they are due. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Unfunded portions of actuarially determined liabilities for retirement benefits are not recorded in the financial statements.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents (other short-term investments) include cash on deposit and highly liquid financial instruments with original maturities of one year or less.

Investments

Investments are reported at fair value. Fair value is defined as the price at which an asset passes from a willing seller to a willing buyer. It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts. The fair values of investments in securities are generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, fixed income securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Investment income is recognized as earned. Net appreciation or depreciation on plan investments is determined by calculating the change in fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

Benefits Payable

Benefits are paid during the month they are due; therefore, no benefit payable is recorded each month or at year-end.

Federal Income Tax

The System is a qualified pension plan under Section 401a of the Internal Revenue Code (IRC) and, as such, is required to withhold federal income tax from member and benefit recipient payments in accordance with IRC. As a public entity the System is not required to file a federal income tax return with the Internal Revenue Service.

Deferred Revenue

The actuarially determined employer contributions cover a two-year period, one year when the Legislature is in session (odd numbered years) and the next year (even numbered years) when the Legislature is out of session. The State of Nevada pays the System the actuarially determined employer contribution during the year that the Legislature is in session, half of which is deferred until the following year.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Administrative Expenses

Administrative expenses of the System are the responsibility of the State of Nevada and are reimbursed annually. The reimbursement is classified as other income.

Financial Statement Presentation

Comparative data shown for the prior year has been extracted from the June 30, 2010, financial statements. Fiscal year 2010 data has been presented to facilitate financial analysis but is not considered full disclosure of transactions for that year.

The System accounts for securities using the "country of issue" methodology. Under this methodology, regardless of the manager's directive, if a manager invests funds and the underlying country of issue for the security is not the United States, then the security is classified as international.

New Accounting Pronouncement

During the year ended June 30, 2011, the System adopted GASB Statement No. 59, Financial Instruments Omnibus, which was issued to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments.

NOTE 2 – Plan Description

Organization

The System administers a single employer public employees' defined benefit retirement system established in 1967 by the Legislature to provide a reasonable base income to Legislators at retirement. The System was established by and functions in accordance with laws enacted by the Legislature. It is administered by the Board. As described in Note 1 the System is considered a component unit of the State of Nevada financial reporting entity and is included in the State's financial statements as a pension trust fund.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Membership

At June 30, 2011, the System's membership consisted of:

| | |
|-----------------------------|------------|
| Active members | 40 |
| Inactive vested members | 13 |
| Inactive non-vested members | 20 |
| Retired members | 67 |
| Survivors and beneficiaries | 14 |
| Total | <u>154</u> |

Benefits

Benefits, as required by statute, are determined by the number of years of accredited service at the time of retirement. Service years include the entire election term whether or not the Legislature is in session. Benefit payments to which participants may be entitled under the plan include pension benefits and survivor benefits. The monthly benefit amount is \$25 for each year of service up to thirty years.

Vesting

If a Legislator is newly elected after July 1, 1985, they must have at least 10 years of service, be age 60, and no longer be a Legislator in order to retire without benefit reduction. If a Legislator is no longer serving and has at least 10 years of service but is under the age of 60, they can elect to wait to receive their benefit until the age of 60 or begin receiving a reduced benefit prior to the age of 60. The minimum requirement for an unreduced benefit for a Legislator elected prior to July 1, 1985, is 8 years of accredited service at age 60.

Contributions

The employee contribution of 15% of compensation is paid by the employee only when the Legislature is in session, as required by statute. The Legislature holds sessions every two years.

Prior to 1985 the employee contributions were matched by the employer. The 1985 Legislators' Retirement Act includes Nevada Revised Statute (NRS) 218C.390(2) which states "the Director of the Legislative Counsel Bureau shall pay to the Board from the Legislative Fund an amount as the contribution of the State of Nevada as employer which is actuarially determined to be sufficient to provide the System with enough money to pay all benefits for which the System will be liable." The Legislature appropriated \$364,186 for fiscal years 2011 and 2012, which is the required State contribution as determined by the actuary. This amount was paid by the State of Nevada to the Legislative fund during fiscal year 2011, of which \$182,093 (half) was recognized as employer contributions in the fiscal year ended June 30, 2011, and the other half was deferred to fiscal year 2012. Additionally, employee contributions of \$51,348 were received in fiscal year

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

2011, of which \$25,674 was recorded as employee contributions in the fiscal year ended June 30, 2011, and the remaining \$25,674 was recorded as deferred revenue for fiscal year 2012.

Termination

Upon termination from the System, all accrued benefits that are funded become 100% vested and non-forfeitable.

NOTE 3 – Contributions Required and Contributions Made

The System's basic funding policy provides for contributions by the State based on a biennial actuarial valuation prepared per NRS 218C.390(2). The Annual Required Contribution (ARC) includes the employer's normal cost and a provision for amortizing the Unfunded Actuarial Accrued Liability (UAAL).

Beginning with the current actuarial valuation, the biennial valuation was changed from a calendar year to a fiscal year to coincide with the System's year-end. This change enhances the consistency between the financial statements and the valuation. The most recent actuarial valuation, dated July 1, 2010, is based on June 30, 2010, census data. The next actuarial valuation will be issued June 30, 2012.

Effective with the January 1, 2009 valuation, the UAAL is amortized as a level dollar amount over a declining amortization period of 20 years. Any increases or decreases in the UAAL that arise in future years will be amortized over separate 20-year periods. In addition, the Actuarial Value of Assets (AVA) was limited to not less than 75% or greater than 125% of market value.

The actuarial funding method used is the Entry Age Normal Cost Method. At July 1, 2010, date of the most recent actuarial valuation, the System's funded status was as follows:

| Actuarial Valuation Date | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets (AVA) | Unfunded Actuarial Liability (UAAL) | Ratio of AVA to AAL | Annual Covered Payroll | UAAL as a % of Annual Covered Payroll |
|---------------------------------|--|--|--|----------------------------|-------------------------------|--|
| 07/01/10 | \$ 5,608.2 | \$ 4,134.0 | \$ 1,474.2 | 74% | \$ 358.8 | 410.9% |

See Required Supplementary Information (RSI) on page 24 for a schedule of funding progress. The schedule indicates how the actuarial values of plan assets have increased or decreased over time relative to the Actuarial Accrued Liability (AAL) for benefits.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

At July 1, 2010, date of the most recent actuarial valuation, the System's required employer contributions are as follows:

| Actuarial Valuation Date | Annual Required Contributions | Percentage Contributed |
|---|--|-----------------------------------|
| 07/01/10 | \$ 182.1 | 100.0% |

See RSI on page 24 for a schedule of employer contributions.

Actuarial information

The RSI was determined as part of the actuarial valuation at the date indicated. Additional information regarding the most recent actuarial valuation is as follows:

| | |
|-----------------------------------|---|
| Valuation date | July 1, 2010 |
| Actuarial cost method | Entry age normal |
| Amortization method | Year-by-year closed, level dollar amount with each amortization period set at 20 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Assumed inflation rate | 3.5% per annum |
| Projected salary increases | None |
| Retirement age for active members | Legislators become fully vested at age 60 with eight years of service with service credit before July 1, 1985, or at age 60 with ten years of service without service credit before July 1, 1985. |
| Assumed mortality rate | 1983 Group Annuity Mortality Tables |

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

| | |
|---------------------------|---|
| Post-retirement increases | 2.0% per year after three years of receiving benefits 3.0% per year after six years of receiving benefits 3.5% per year after nine years of receiving benefits 4.0% per year after twelve years of receiving benefits 5.0% per year after fourteen years of receiving benefits* Cap based on CPI if benefits outpace inflation |
|---------------------------|---|

* Does not apply to retirees who enter the System on or after January 1, 2010.

For the fiscal year ended June 30, 2009, the System experienced a negative investment return of 17.2% (gross of fees). The impact of the loss continues to be recognized in fiscal year 2011 because the actuarial value of assets is determined by smoothing the asset gain or loss over a five-year period.

NOTE 4 – Deposit and Investment Risk Disclosures

The investments of the System are governed primarily by the “prudent person” standard. The prudent person standard, as set forth by NRS 286.682, authorizes the Retirement Board to invest the System’s funds in “every kind of investment which persons of prudence, discretion and intelligence acquire or retain for their own account.” The System has established limits on the concentration of investments in any single issuer or class of issuer or managed by a single investment firm.

The majority of the System’s investments are held by the Depository Trust Company (DTC) in DTC’s nominee name, and trading is conducted through the DTC’s book-entry system. The holder of record for the System is The Bank of New York Mellon.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of its depository financial institution, the System will not be able to recover its deposits.

At June 30, 2011, the carrying amount of the System’s commercial cash deposits was \$2,006 and the commercial bank balance was \$8,103. The bank balance was fully insured by the Federal Deposit Insurance Corporation (FDIC).

Custodial cash is swept nightly from the custodial bank to an overnight short-term investment fund held outside the bank. Funds arriving at the bank after the overnight sweep deadline are

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

part of the custodial bank cash reserve and are covered up to the FDIC limit, any amount in excess of this limit is subject to custodial credit risk.

The custodial bank also carries insurance covering destruction of cash or securities on or off premises (including securities of others held in custody) with a limit of \$850,000,000.

Credit Risk - Investments

Credit risk for investments is the risk that an issuer or other counterparty will not fulfill its obligations to the System and *custodial credit risk for investments* is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

System policies provide protection from undue investment credit risk as follows:

- Investment in commercial paper provided it, or the guarantor, is rated A1, F1, and P1, or the equivalent, by at least two of Moody's, Standard & Poor's, or Fitch.
- Certificates of deposit, banker's acceptances, and time deposits are only allowed of banks with a minimum of \$10 billion in bank capital which have a quality rating of A-, A3, or better by at least two of Moody's, Standard & Poor's, or Fitch.
- Repurchase agreements with banks or dealers provided the agreement is collateralized by 102% with U.S. Treasuries or Government Sponsored Enterprise (GSE) and such collateral is delivered to the System's bank or its correspondent.
- Money market mutual funds must be SEC registered 2(a)-7 and AAA rated by at least two of Moody's, Standard & Poor's, or Fitch and whose investment guidelines are substantially equivalent to and consistent with the System's overall short-term investment criteria.
- Bonds and notes of United States corporations and asset-backed instruments must have an investment grade rating by at least two of Moody's, Standard & Poor's, or Fitch (BBB- or better by Standard & Poor's/Fitch or Baa3 or better by Moody's).
- Debt issued in the United States by foreign entities located in countries in the Citigroup Non-Dollar Government Bond Index is authorized provided both interest and principal are payable in U.S. dollars and such debt is rated investment grade by at least two of Moody's, Standard & Poor's, or Fitch (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's).
- If a security is not rated by all three agencies, it must have an investment grade rating by at least two (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's).

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

- To Be Announced (TBA) mortgage transactions are utilized to provide access to mortgage securities. Sufficient short-term investments must be available at all times to settle TBA transactions. Determination of broker creditworthiness and reliability is the responsibility and liability of counsel. Outstanding TBA positions with a single broker may not exceed 10% of each counsel's portfolio.

The following international securities are authorized:

- Bonds, notes, and deposits of foreign governments and government agencies included in the Citigroup Non-Dollar Government Bond Index.
- Bonds, notes, and deposits of foreign corporations based in the countries included in the Citigroup Non-Dollar Government Bond Index and warranted by Counsel to be of the same investment quality as Moody's Aa3 and Standard and Poor's/Fitch's AA- ratings. If a security is not rated by all three agencies, it must be rated by at least two.
- Bonds, notes, and deposits of U.S. entities which are not denominated in U.S. dollars and are rated by at least two of the three agencies (Aa3 by Moody's, AA- by Standard & Poor's/Fitch). If a security is not rated by all three agencies, it must be rated by at least two.
- Foreign currency deposits in countries in the Citigroup Non-Dollar Government Bond Index, for purposes of hedging, including cross currency hedges. Leverage is not permitted.

The following table shows the Standard and Poor's (S&P) credit quality ratings of the System's investments in fixed income securities as of June 30, 2011.

QUALITY RATING

| Investment Type (in thousands) | AAA | AA | A | BBB | Not Rated | Total |
|--|----------------|---------------|---------------|---------------|----------------------|-------------------|
| Cash equivalents | \$ - | \$ - | \$ - | \$ - | \$ 10.0 | \$ 10.0 |
| Commingled funds | - | - | - | - | 1,453.4 | 1,453.4 |
| Non-U.S. markets | 17.4 | 9.5 | 4.6 | 1.6 | 232.2 | 265.3 |
| Total | \$ 17.4 | \$ 9.5 | \$ 4.6 | \$ 1.6 | \$ 1,695.6 | \$ 1,728.7 |

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. System policy limits corporate short-term investments of any of the System's counsels to 5% of a single issuer. Each counsel's portfolio shall be suitably

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

diversified as to assets with any single issuer (except U.S. Government obligations) or class of issuers so that an adversity affecting a particular sector will not impact a substantial share of the total portfolio.

System policy further requires bond portfolios to be suitably diversified as to assets with any single issuer (except Government Agency or Government Sponsored Enterprise-guaranteed obligations) or class of issuers so that an adversity affecting a particular sector will not impact a disproportionate share of the bond portfolio. Corporate issuers are limited to 5% per issuer and asset-backed, commercial mortgage-backed, and private label mortgage-backed securities are limited to 5% per issuer.

No more than 10% of the Legislators' Retirement System assets, combined with Judicial Retirement System and Public Employees' Retirement System (PERS) assets, shall be managed on a permanent basis by a single investment firm unless that firm manages index or securities lending assets for PERS. In those cases, the firm may manage up to 25% of the combined Systems' assets on a permanent basis. In addition, the combined Systems' assets shall not permanently constitute more than 20% of any firm's assets within the asset class managed for the Systems.

No individual asset exceeded 5% of the total portfolio during the fiscal year.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. The System mitigates interest rate risk through portfolio diversification. 100% of the System's investment of U.S. Bonds are targeted for allocation within the Barclays Capital Bond Index. If the securities purchased are outside this index (except those issued or guaranteed by the U.S. Government or its agencies or instrumentalities), they must be of investment grade rating by at least two of Moody's, Standard & Poor's, or Fitch (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's).

The targeted allocation within International Bonds is 100% Citigroup Non-Dollar Government Bond Index. The System's investment policy allows the purchase of debt issued in the United States by foreign entities located in countries in the Citigroup Non-Dollar Government Bond Index, provided that both interest and principal are payable in U.S. dollars in the United States and provided that such debt is rated investment grade by at least two of Moody's, Standard & Poor's, or Fitch (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's).

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The actual years to maturity method is used to determine investment maturity time horizons. The following table shows the fair value of fixed income and short-term securities and the applicable investment maturities as of June 30, 2011.

INVESTMENT MATURITIES

(in years)

| Investment Type (in thousands) | Less than 1 | 1 to 5 | 6 to 10 | More than 10 | Total |
|--|------------------------|-----------------|----------------|-------------------------|-------------------|
| Cash equivalents | \$ 10.0 | \$ - | \$ - | \$ - | \$ 10.0 |
| Commingled funds | 1,453.4 | - | - | - | 1,453.4 |
| Non-U.S. markets | 11.3 | 104.6 | 81.8 | 67.6 | 265.3 |
| Total | \$ 1,474.7 | \$ 104.6 | \$ 81.8 | \$ 67.6 | \$ 1,728.7 |

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System mitigates foreign currency risk through portfolio diversification. Foreign currency deposits and options on foreign currency positions are allowed by System policy for purposes of hedging, including cross currency hedges. Highly speculative positions in currency are not permitted.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2011, is summarized in the following table:

CURRENCY BY INVESTMENT AND FAIR VALUE

| Currency Type | Fixed | | | | Total |
|------------------------|-------------------|--------------------|-----------------|-----------|----------------|
| | Income | Derivatives | Cash | | |
| Australian Dollar | \$ 2,132 | \$ 155 | \$ 899 | \$ | 3,186 |
| British Pound Sterling | 19,406 | (527) | 452 | | 19,331 |
| Canadian Dollar | 7,085 | (408) | 780 | | 7,457 |
| Danish Krone | 1,621 | 87 | 612 | | 2,320 |
| Euro | 110,417 | 1,551 | 1,056 | | 113,024 |
| Japanese Yen | 115,750 | (539) | 889 | | 116,100 |
| Malaysian Ringgit | 1,022 | - | 144 | | 1,166 |
| Mexican New Peso | 2,166 | (207) | 363 | | 2,322 |
| Norwegian Krone | 202 | - | 581 | | 783 |
| Polish Zloty | 1,451 | 68 | 914 | | 2,433 |
| Singapore Dollar | 932 | 38 | 77 | | 1,047 |
| Swedish Krona | 1,794 | (14) | 10 | | 1,790 |
| Swiss Franc | 1,391 | (213) | 42 | | 1,220 |
| Total | \$ 265,369 | \$ (9) | \$ 6,819 | \$ | 272,179 |

Derivatives are periodically employed by the System. Foreign exchange forward contracts are periodically employed by the System to hedge currency risk of investments in foreign currencies. No other derivatives are permitted within the System's portfolio. Generally, derivatives are subject both to market risk and to counterparty risk. The derivatives utilized by the System typically have no greater market risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. *Counterparty risk*, the risk that the "other party" to a contract will default, is managed by careful screening of counterparties. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The System's derivative transactions for fiscal year 2011 are summarized in the following table.

FOREIGN EXCHANGE CONTRACTS
For Year Ended June 30, 2011

| Currency | Purchases | Realized Gain / Loss | Sells | Realized Gain / Loss | Total Realized Gain / Loss |
|------------------------|------------------|---------------------------------|--------------------|---------------------------------|---|
| Australian Dollar | \$ 946 | \$ 8 | \$ (291) | \$ 48 | \$ 56 |
| British Pound Sterling | 4,018 | 15 | (1,071) | 7 | 22 |
| Canadian Dollar | 1,456 | 19 | (554) | 4 | 23 |
| Danish Krone | 491 | 6 | (318) | (11) | (5) |
| Euro | 14,827 | 53 | (7,578) | 36 | 89 |
| Japanese Yen | 18,567 | 90 | (3,208) | 12 | 102 |
| Mexican New Peso | 2,698 | 10 | (256) | 1 | 11 |
| Norwegian Krone | 146 | 2 | (11) | 1 | 3 |
| Polish Zloty | 757 | 15 | (439) | 43 | 58 |
| Singapore Dollar | 480 | 1 | (410) | 1 | 2 |
| Swedish Krona | 358 | 3 | (179) | 2 | 5 |
| Swiss Franc | 450 | 2 | (504) | 7 | 9 |
| Total | \$ 45,194 | \$ 224 | \$ (14,819) | \$ 151 | \$ 375 |

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The System's pending derivative transactions as of June 30, 2011, are summarized in the following table.

FOREIGN EXCHANGE CONTRACTS
Pending as of June 30, 2011

| Currency | Purchases | Unrealized Gain / Loss | Sells | Unrealized Gain / Loss | Total Unrealized Gain / Loss |
|------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|---|
| Australian Dollar | \$ 155 | \$ - | \$ - | \$ - | \$ - |
| British Pound Sterling | - | - | 527 | - | - |
| Canadian Dollar | - | - | 408 | - | - |
| Danish Krone | 87 | - | - | - | - |
| Euro | 1,551 | - | - | - | - |
| Japanese Yen | - | - | 539 | - | - |
| Mexican New Peso | - | - | 207 | - | - |
| Polish Zloty | 68 | - | - | - | - |
| Singapore Dollar | 38 | - | - | - | - |
| Swedish Krona | - | - | 14 | - | - |
| Swiss Franc | - | - | 213 | - | - |
| Total | \$ <u>1,899</u> | \$ <u>-</u> | \$ <u>1,908</u> | \$ <u>-</u> | \$ <u>-</u> |

NOTE 5 – Risk Management

The System is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks, the System maintains commercial building and contents insurance, vehicle liability and collision/comprehensive insurance, general liability insurance, worker's compensation insurance, and employee fidelity bonds. For coverage included within the State of Nevada's policies (all but worker's compensation and building/contents insurance), the System pays its premium directly to the State. The System's worker's compensation and building/contents insurance are placed with private insurance companies. There have never been any insurance settlements which exceeded insurance coverage.

Required Supplementary Information

LEGISLATORS' RETIREMENT SYSTEM OF NEVADA
2011 ANNUAL FINANCIAL REPORT

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

2001 to 2011
(in thousands)

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets (AVA) | Unfunded Actuarial Liability (UAAL) | Ratio of AVA to AAL | Annual Covered Payroll | UAAL as a % of Annual Covered Payroll |
|---------------------------------|--|--|--|----------------------------|-------------------------------|--|
| 1/1/01 | \$ 5,398.7 | \$ 3,812.0 | \$ 1,586.7 | 71 % | \$ 475.8 | 333.5 % |
| 1/1/03 | 5,641.6 | 4,059.7 | 1,581.9 | 72 | 483.6 | 327.1 |
| 1/1/05 | 5,861.9 | 4,101.4 | 1,760.5 | 70 | 452.4 | 389.1 |
| 1/1/07 | 5,884.3 | 4,323.6 | 1,560.7 | 73 | 327.6 | 476.4 |
| 1/1/09 | 5,955.4 | 4,229.4 | 1,726.0 | 71 | 351.0 | 491.7 |
| 7/1/10 | 5,608.2 | 4,134.0 | 1,474.2 | 74 | 358.8 | 410.9 |

Schedule of Employer Contributions

| Actuarial Valuation Date* | For Fiscal Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|----------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| 1/1/01 | 2002 | \$ 172.8 | 100.0 % |
| 1/1/03 | 2003 | 176.5 | 100.0 |
| 1/1/03 | 2004 | 176.5 | 100.0 |
| 1/1/05 | 2005 | 206.2 | 100.0 |
| 1/1/05 | 2006 | 206.2 | 100.0 |
| 1/1/07 | 2007 | 185.4 | 100.0 |
| 1/1/07 | 2008 | 185.4 | 100.0 |
| 1/1/09 | 2009 | 200.9 | 100.0 |
| 1/1/09 | 2010 | 200.9 | 100.0 |
| 7/1/10 | 2011 | 182.1 | 100.0 |

* Corrected from previous publications.

Trends are affected by investment experience (favorable or unfavorable), salary experience, retirement experience or changes in demographic characteristics of employees. Changes in benefit provisions and in actuarial methods and assumptions also affect trends.