FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The Honorable County Executive and
Members of County Council
Baltimore County, Maryland

We have audited the accompanying Statement of Plan Net Assets and Statement of Changes in Plan Net Assets of the Employees' Retirement System of Baltimore County, Maryland (the System), as of and for the years ended June 30, 2010 and 2009, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide 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 Employees' Retirement System of Baltimore County, Maryland as of June 30, 2010 and 2009, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Supplemental Schedules of Funding Progress and Required Employer Contributions, as listed in the table of contents 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.

Member of HLB International

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections, and the schedules of investment expenses and administrative expenses, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of investment expenses and administrative expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
December 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Employees' Retirement System of Baltimore County (the "System") provides an overview of financial activities for the fiscal years ended June 30, 2010 (FY 2010) and June 30, 2009 (FY 2009). Please read it in conjunction with the transmittal letter in the Introductory Section beginning on Page 2 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System net assets held in trust at the close of FY 2010 and FY 2009 were $1.79 billion and $1.59 billion, respectively.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. Based on the latest actuarial valuations, as of June 30, 2009 and 2008, the funded ratio was 82.5% and 88.0%, respectively.
- Contributions for FY 2010 and FY 2009 were $91.2 and 81.2 million, respectively, an increase of 12.3%. This increase was primarily a result of increased employer contributions.
- Net investment income gain of $254.8 million in FY 2010 compares favorably to the ($397) million loss experienced in FY 2009.
- Total deductions increased slightly by 1.7% over the prior year from $151 million to $154 million.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements: The Statement of Plan Net Assets (Page 19) and the Statement of Changes in Plan Net Assets (Page 20). These financial statements report information about the System as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better or worse off as a result of this year's activities? These statements include all assets and liabilities that are due and payable using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employers' Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL ANALYSIS

The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. In FY 2010, net asset held in trust for pension benefits increased 12% over FY 2009, indicating an improving financial position of the System.

Total liabilities that are due and payable as of June 30, 2010 and 2009 were $139,363,427 and $155,791,329 respectively, and were comprised of payables for investment purchases, investment expenses, and obligations under securities lending. In FY 2010 total liabilities decreased 10.5% or $16,427,902 from the prior year primarily due to a decrease in payables for collateral of loaned securities. In FY 2009 total liabilities decreased 63.3% or $268,232,464 from the prior year primarily due to a decrease in both payables for collateral of loaned securities and investments purchased.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

System assets exceeded its due and payable liabilities at the close of fiscal year 2010 and 2009 by $1,786,270,975 and $1,594,291,830, respectively. In FY 2010 total net assets held in trust for pension benefits increased 12% or $191,979,145 from the previous year. In FY 2009, total net assets held in trust for pension benefits decreased 22.6% or $466,819,395 from the previous year primarily due to the housing crisis and the extreme turmoil and volatility in the credit and equity markets.

BALTIMORE COUNTY EMPLOYEES' RETIREMENT SYSTEM
PLAN NET ASSETS
AS OF JUNE 30, 2010, 2009 AND 2008
(IN THOUSANDS)

	2010	2009	2008	2010-2009 Total % Change	2009-2008 Total % Change
ASSETS					
Cash and Short Term Investments	$41,851	$35,623	$88,274	17.5%	(59.6)%
Collateral for Loaned Securities	89,734	126,205	246,762	(28.9)	(48.9)
Receivables	29,339	16,234	76,756	80.7	(78.8)
Investments	1,764,711	1,572,021	2,073,343	12.3	(24.2)
Total Assets	$1,925,635	$1,750,083	$2,485,135	10.0%	(29.6)%
LIABILITIES					
Accounts Payable and Other Accrued Liabilities	47,915	29,586	177,262	62.0	(83.3)
Obligations Under Securities Lending	91,449	126,205	246,762	(27.5)	(48.9)
Total Liabilities	$139,364	$155,791	$424,024	(10.5)%	(63.3)%
Total Net Assets	$1,786,271	$1,594,292	$2,061,111	12.0%	(22.6)%

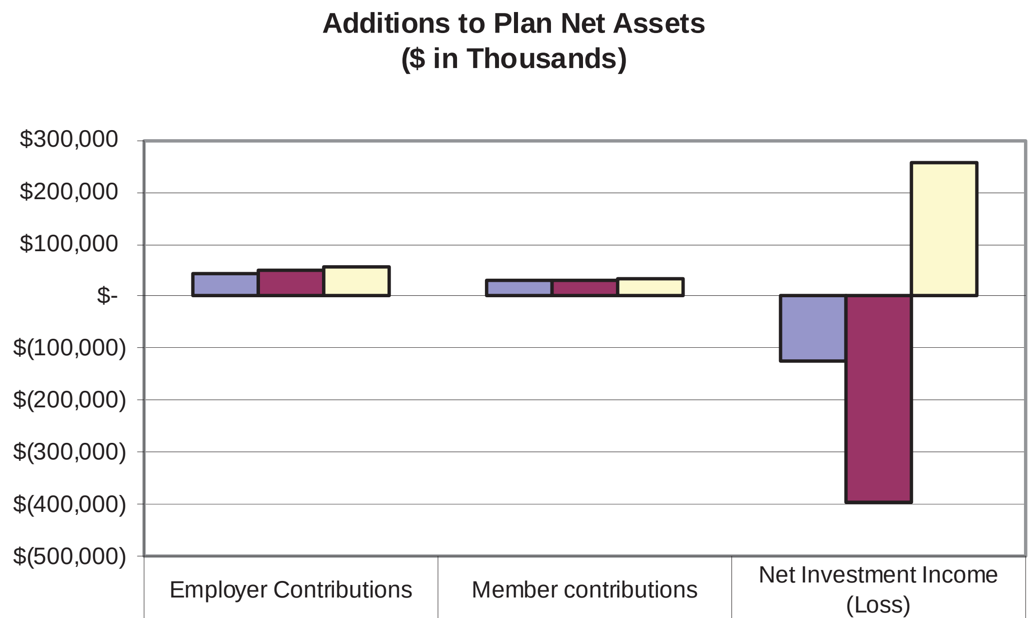
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total additions for FY 2010 increased 209.7% over FY 2009, due primarily to an increase in investment income. Total additions for FY 2009 decreased 523.5% over FY 2008, due primarily to a decrease in investment income resulting from the financial crisis and recession of the US economy. Total deductions for FY 2010 increased slightly by 1.7% or $2,628,809 over FY 2009 due to an increase in benefit payments and administrative expenses. Total deductions for FY 2009 increased 9% or $12,460,295 over FY 2008 due to an increase in benefit payments and refunds of contributions.

BALTIMORE COUNTY EMPLOYEES' RETIREMENT SYSTEM
CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010, 2009 AND 2008
(IN THOUSANDS)

	2010	2009	2008	2010-2009 Total % Change	2009-2008 Total % Change
ADDITIONS					
Contributions	$91,212	$81,186	$74,130	12.3%	9.5%
Investment Income	256,108	(397,821)	(125,755)	164.4	(216.3)
Net Income (Loss) from Security Lending	(1,303)	1,225	1,042	(206.4)	17.6
Total Net Investment Income (Loss)	$254,805	($396,596)	($124,713)	164.2%	(218.0)%
Total Additions	$346,017	($315,410)	($50,583)	209.7%	(523.5)%
DEDUCTIONS					
Benefits	150,704	147,062	134,991	2.5	8.9
Refunds of Contributions	2,235	3,400	2,949	(34.3)	15.3
Administrative Expenses	1,099	947	1,009	16.1	(6.1)
Total Deductions	$154,038	$151,409	$138,949	1.7%	9.0%
Net Increase (Decrease)	$191,979	($466,819)	($189,532)	141.1%	(146.3)%
Net Assets Held in Trust for Pension Benefits					
Beginning of Year	1,594,292	2,061,111	2,250,643	(22.6)	(8.4)
End of Year	$1,786,271	$1,594,292	$2,061,111	12.0%	(22.6)%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



	Employer Contributions	Member contributions	Net Investment Income (Loss)
2008	$44,168	$29,962	($125,755)
2009	$49,763	$31,423	($397,821)
2010	$57,976	$33,236	$256,108

REVENUES – ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and earnings on investments. Contributions and net investment income (loss) for fiscal years 2010 and 2009 were $346,017,153 and ($315,410,196), respectively.

Additions increased for FY 2010 by $661,427,349 from that of the prior year, due primarily to an increase in investment income. Additions decreased for FY 2009 by $264,827,120 from that of the prior year, due primarily to a decrease in the investment income. Total employer contributions for FY 2010 increased over FY 2009 by $8,213,524 or 16.5%, while member contributions increased by $1,812,901or 5.8%. Total employer contributions for FY 2009 increased over FY 2008 by $5,595,329 or 12.7%, while member contributions increased by $1,460,687 or 4.9%. The increase in employer contributions was primarily due to asset experience and other factors including an increase in scheduled accrued liability contributions. Based on the latest available actuarial valuation, the fiscal years ended 2009 and 2008, rates of return were (14.1%) and 7.5%, respectively.

The overall System portfolio returned 16.4% for FY 2010, which compares favorably to the 17.5% loss sustained in FY 2009. Except for real estate investments incurring a loss of 8.2%, all other asset categories provided substantial gains with Fixed Income leading the way with 19.3%, US Common Stock 17.3%, and international equity returning 16.1%.

For fiscal year ended June 30, 2009, the total portfolio had losses of 17.5%, which under-performed the System's performance benchmark of (14.4%). The leading under-performers for FY2009 were real estate investments with losses of 37.0%, U.S. equity and foreign equity investments with losses of 26.8% and 26.0% respectively, and private equity investments with losses of 16.8%. Fixed income investments provided the only positive returns of 3.2% to the System.

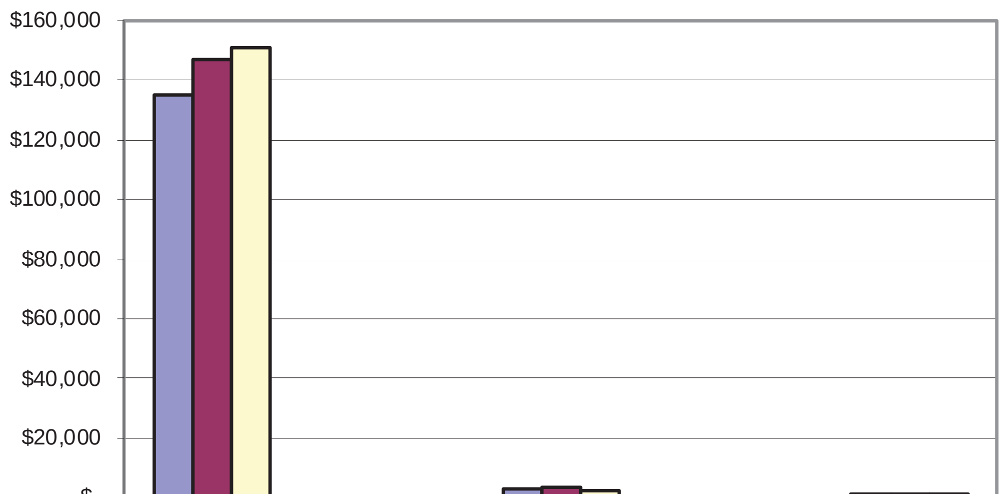
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

The expenses of the System include pension payments to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Deductions for FY 2010 were $154,038,008, an increase of 1.7% over FY 2009. Deductions for FY 2009 were $151,409,199, an increase of 9% over FY 2008.

The payment of pension benefits increased by 2.5% or $3,641,720 in FY 2010 from the previous year. The payment of pension benefits increased by 8.9% or $12,070,850 in FY 2009 from the previous year. The increase in pension benefit expenditures in FY 2009 resulted from an increase in the Deferred Retirement Option Program (DROP) eligible retirees. The net number of additional retirees was 194 and 60 in FY 2010 and FY 2009, respectively. Administrative expenses for FY 2010 increased by 16% or $151,494 from the previous year and decreased by 6.1% or $61,250 for FY 2009.

Deductions from Plan Net Assets (in Thousands)



	Pension Benefits	Refunds	Administrative Expenses
2008	$134,991	$2,949	$1,009
2009	$147,062	$3,400	$947
2010	$150,704	$2,235	$1,099

RETIREMENT SYSTEM AS A WHOLE

Net assets held in trust for pension benefits increased by $192 million or 12% in FY 2010. The System's funding ratio, as determined by the County's actuary, was 82.5% at June 30, 2009 and 88.0% at June 30, 2008. During FY 2010, Legislative and Administrative changes were implemented to further improve the financial condition of the System by increasing contributions and reducing benefits. The Board continues to utilize the concepts of prudent investment management, cost controls and strategic planning.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Office of Budget and Finance, Room 176, 400 Washington Avenue, Towson, Maryland 21204.

Employees' Retirement System of Baltimore County
Statements of Plan Net Assets
As of June 30, 2010 and 2009

	2010	2009
Assets:		
Cash and short term investments	$ 41,850,635	$ 35,622,644
Collateral for loaned securities	89,733,576	126,205,223
Receivables:		
Accrued interest and dividend income	3,001,631	4,539,048
Receivable for investments sold	25,113,428	11,026,445
Receivables - other	1,224,163	668,381
Total Receivables	29,339,222	16,233,874
Investments, at fair value		
U.S. Government and agency securities	165,541,960	88,197,841
Municipal Bonds	1,254,795	-
Foreign bonds	28,472,741	34,157,136
Corporate bonds	127,548,325	143,819,202
Stocks	361,304,324	332,319,650
Bond mutual funds	177,204,936	121,548,717
Stock mutual funds	342,893,597	367,974,695
Real estate equity funds	62,671,352	69,663,222
Hedge funds	94,549,761	89,357,333
Private equity funds	85,405,958	73,867,746
Real Assets	32,687,677	-
Global Asset Allocation	285,175,543	251,115,876
Total Investments	1,764,710,969	1,572,021,418
Total Assets	1,925,634,402	1,750,083,159
Liabilities:		
Investment expenses payable	2,060,708	2,015,824
Refunds payable	250,756	252,180
Payable for investments purchased	45,464,831	27,201,545
Payable for collateral for loaned securities	91,448,812	126,205,223
Payables - other	138,320	116,557
Total Liabilities	139,363,427	155,791,329
Net Assets Held in Trust for Pension Benefits	$1,786,270,975	$1,594,291,830

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

Employees' Retirement System of Baltimore County
Statements of Changes in Plan Net Assets
for the Years Ended June 30, 2010 and 2009

	2010	2009
Additions		
Contributions:		
Employers	$ 57,976,378	$ 49,762,854
Members	33,235,627	31,422,726
Total contributions	91,212,005	81,185,580
Investment Income/Loss:		
Net increase (decrease)		
in the fair value of investments	232,230,229	(429,592,199)
Interest and dividends	35,258,077	42,317,443
	267,488,306	(387,274,756)
Less: Investment expenses	(11,379,864)	(10,546,119)
Investment Income /(Loss)	256,108,442	(397,820,875)
Securities Lending:		
Securities Lending Income	484,525	3,255,304
Less:		
Net decrease in the fair value of investments	(1,715,236)	-
Borrower Rebates	87,498	(1,528,132)
Agent Fees	(160,081)	(502,073)
Net Income/(Loss) from Securities Lending	(1,303,294)	1,225,099
Total Net Investment Income/(Loss)	254,805,148	(396,595,776)
TOTAL ADDITIONS, net of investment Income/(Loss)	346,017,153	(315,410,196)
Deductions		
Benefits	150,703,841	147,062,121
Refunds of contributions	2,235,269	3,399,674
Administrative expenses	1,098,898	947,404
TOTAL DEDUCTIONS	154,038,008	151,409,199
Net Increase/Decrease	191,979,145	(466,819,395)
Net assets held in trust for pension benefits		
Beginning of year	1,594,291,830	2,061,111,225
End of year	$1,786,270,975	$1,594,291,830

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

Notes to Financial Statements

1. Plan Description

The Employees' Retirement System of Baltimore County (the "System") is a cost-sharing multiple-employer defined benefit public employee retirement system that acts as a common investment and administrative agent serving five entities including Baltimore County (the "County") and certain employees of the Baltimore County Board of Education, Baltimore County Board of Library Trustees, the Community College of Baltimore County and the Baltimore County Revenue Authority. The System is not an employer. The System provides retirement and disability benefits, cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and maintain the System is specified in Section 5-1-101 of the Baltimore County Code (the "Code").

The System is considered part of the Baltimore County, Maryland reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund. The System is fiscally dependent on the County by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. In accordance with Section 5-1-238 of the Code, responsibility for the proper operation of the System is vested in an eight-member Board of Trustees (the "Board"), comprised of a combination of ex-officio and elected representatives. The general administration of the System is vested in the Director of Budget and Finance.

As of June 30, 2010 and 2009, System membership consisted of:

	2010	2009
Retirees and beneficiaries currently receiving benefits		
General employees, correctional officers and deputy sheriffs	4,679	4,548
Firefighters and police officers	2,025	1,962
Total retirees and beneficiaries	6,704	6,510
Terminated employees entitled to benefits but not yet receiving them		
General employees, correctional officers and deputy sheriffs	465	411
Firefighters and police officers	52	53
Terminated employees entitled to benefits but not yet receiving	517	464
Current employees		
Vested - Full-time employees		
General employees, correctional officers and deputy sheriffs	4,028	3,982
Firefighters and police officers	2,399	2,382
Non-vested - Full-time employees		
General employees, correctional officers and deputy sheriffs	1,643	1,802
Firefighters and police officers	519	539
Part-time employees		
Vested - General employees	602	595
Non-vested - General employees	442	472
Total active members	9,633	9,772
Non-Vested Terminations with account balances	55	43
Members on leave of absence		
General employees, correctional officers and deputy sheriffs	29	32
Firefighters and police officers	6	12
Total members on leave of absence	35	44
Grand Total	16,944	16,833

Notes to Financial Statements

The following is a brief description of the System's plan provisions. For a more complete description, see the Summary of Plan Provisions included in the Actuarial Section of this report.

Employees, exclusive of firefighters and police officers, may become System members at any time within the first two years of employment. Employees must become System members at the end of the two-year period as a condition of employment except for elected officials, employees appointed to certain non-merit positions and part-time employees who have the option to join the System within the first two years. Selection of the option must be made within two years of employment. Section 5-1-203 of the Code provides that System members contribute a percentage of their salary to the System (see Note 3 for additional information on contribution rates).

Employees who terminate employment or die in service prior to meeting vesting eligibility are entitled to a refund of their contributions. Interest is credited on member contributions at the rate of 5% per annum. Employers are required to contribute an actuarially determined amount annually to finance the System as specified by Sections 5-1-203 and 5-1-257 of the Code.

Members are eligible for a normal retirement for service based on age and/or years of creditable service. There is no mandatory retirement age for general employees and correctional officers. Firefighters and police officers must retire at age 60 unless approved for continuation of service by the Board on an annual basis.

The County has adopted a Back DROP, for Police Officers and Firefighters under which eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit for life. The DROP period is between three and five years, effective with retirements that occurred on or after July 1, 2004. Police Officers and Firefighters hired on or after July 1, 2007 are not eligible to participate in the DROP.

The County has adopted a Back DROP for Correctional Officers and Deputy Sheriffs hired prior to July 1, 2007. Eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit. The DROP period is between three and five years, effective with retirements that occur on or after July 1, 2010. Correctional Officers and Deputy Sheriffs hired on or after July 1, 2007 are not eligible to participate in the DROP.

The County has adopted a Forward DROP for General Employees hired prior to July 1, 2007. Eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit. The DROP period is between five and ten years, effective with retirements that occur on or after July 1, 2012. General Employees hired on or after July 1, 2007 are not eligible to participate in the DROP.

An ordinary disability retirement may be granted to a member who can no longer perform their job due to a non-occupational related injury. Police officers and firefighters ("Group 4"), must have 5 years of creditable service, while the general, correctional officers and deputy sheriffs ("Group 3"), must have ten years of creditable service and be medically certified as incapacitated for continued performance of their duties. The ordinary disability retirement allowance is determined in accordance with Section 5-1-222 of the Code.

An accidental disability retirement for Group 3 members may be granted to a member who has been incapacitated for duty as a result of an occupational related injury. Accidental disability payments are tiered (75%, 66.67%, or 50%), based upon the degree of disability. The accidental disability retirement allowance for Group 4 members is determined in accordance with Section 5-1-226 of the Code.

An ordinary death benefit is granted as a result of a member's death from non-occupational causes. A member's designated beneficiary or estate receives a lump sum payment of the member's contributions plus interest. Additionally, after one year of creditable service, the member's designated beneficiary or estate may receive a minimum one-time payment equal to 100% of the member's annual earnable compensation. If a member was eligible for a service retirement or had 15 years of creditable service at the time of death, the spouse, if designated as beneficiary, may receive a retirement allowance based on service years equivalent to a 100% survivorship option (*Option 2*).

Notes to Financial Statements

An accidental death benefit is granted as the result of death from an occupational related injury. The dependent beneficiary of a general employee may receive an allowance equal to $66^{2}/_{3}$% of average final compensation (AFC) plus the annuity as described below. The dependent beneficiary of a firefighter or police officer may receive an allowance equal to 100% of the annual earnable compensation at the time of death plus the annuity as described below.

Retirement allowances are comprised of an annuity equal to the actuarial equivalent of the accumulated contributions plus a pension which together with the annuity shall provide a total allowance as provided for in the System's plan. The retirement allowance is determined based on the AFC and number of years of creditable service. AFC is defined for the majority of the members as the rate of annual earnable compensation during the twelve or thirty-six consecutive calendar months of service affording the highest average. The normal retirement for service allowance is determined as follows:

Employee designation	Allowance formula for Vested Employees
General employees (Hired prior to July 1, 2007)	1.82% of AFC times the number of years of creditable service for: (i) 30 years of creditable service or (ii) Age 65 with 5 years of creditable service or, (iii) Age 60 as of June 30, 2007 and attain 5 years of creditable service. General employees hired prior to July 1, 2007, retiring at age 60 with less than 30 years of creditable service, will receive a blended benefit, (i.e. 1.82% of AFC times the number of years of creditable service earned prior to July 1, 2007, plus 1.43% of AFC times the number of years of creditable service earned on or after July 1, 2007.
General employees (Hired on or after July 1, 2007)	1.43% of AFC times the number of years of creditable service.
Appointed officials	2.5% of AFC times the number of years of creditable service.
Elected officials	5.0% of AFC times the number of years of creditable service. Any Council member who becomes a member of the retirement system on or after February 1, 2010 may not receive a retirement allowance in excess of 60% of the member's AFC.
Firefighters	2.5% of AFC times the number of years of creditable service up to 20 years, plus 2.0% of AFC for each year in excess of 20 years, and 3.0% of AFC for each year in excess of 30 years for service years on or after July 1, 2007. 2.0% of AFC times the number of years of creditable service – if less than 20 years of creditable service.
Correctional officers and Deputy Sheriffs	2.5% of AFC times the number of years of creditable service up to 20 years, plus 2.0% of AFC times the number of years of creditable service in excess of 20 years. <u>If hired prior to July 1, 2007, with less than 20 years of creditable service at retirement:</u> 1.82% of AFC times the number of years of creditable service earned prior to July 1, 2007, plus 1.43% of AFC times the number of years of creditable service earned after June 30, 2007. <u>If hired on or after July 1, 2007, with less than 20 years of creditable service at retirement:</u> 1.43% of AFC times the number of years of creditable service.
Police officers	2.5% of AFC times the number of years of creditable service up to 20 years, plus 2.0% of AFC for each year of creditable service in excess of 20 years, and 3.0% of AFC for each year of creditable service over of 25 years. The 3% accrual rate does not apply for years of creditable service earned prior to July 1, 2007. 2.0% of AFC times the number of years of creditable service – if less than 20 years of creditable service

Notes to Financial Statements

In addition to the maximum retirement allowance, members may select one of six retirement allowance options to provide payments to a beneficiary upon the death of a retired member. A selection of an option reduces the maximum allowance. Eligible police officers and firefighters, may select a 7th option that allows 50% of member's retirement to continue to the original beneficiary at no cost to the employee.

In accordance with Section 5-1-235 of the Code, each July 1, post-retirement allowance adjustments may be granted to retirees who have been retired for more than 12 months. The post-retirement allowance adjustment is equal to the increase in the Consumer Price Index - All Urban Consumers (CPI-U) for the previous calendar year, in an amount not to exceed 4%, provided sufficient investment income in excess of valuation requirements has accumulated in the Post-Retirement Increase Fund Balance Account described in Note 2. The maximum Post-Retirement Increase Fund Account Balance is equal to twice the cost of a 4% COLA. Certain legislative changes to the Plan, approved by Council will take effect on July 1, 2010, are summarized on Page 65 in the Actuarial Section of this report.

2. Summary of Significant Accounting Policies and Plan Asset Matters

New Accounting Standards - In June 2008, the Governmental Accounting Standards Board issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). GASB 53 provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. It also enhances the usefulness and comparability of derivative instrument information reported by state and local governments. The System implemented GASB 53 in the Comprehensive Annual Financial Report for the period ended June 30, 2010.

Basis of Accounting - The financial statements of the System are presented using the economic resource measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employers' contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The System records investment purchases and sales on a trade-date basis. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Method used to Value Investments - Plan investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. The fair value of real estate equity funds is based on independent appraisals. The fair value of mutual funds is based on the fair value of the underlying securities. Hedge fund of funds are valued based on information provided by the respective fund managers. The fair value for alternative investments which include private equity funds is based on information provided by the applicable fund managers (generally the last available independently audited Financial Statements adjusted for cash flows).

Administrative Costs - The System pays for the following administrative expenses: professional actuarial costs, pension consultant fees, medical board examinations, salaries, benefits, audit/legal fees, rents and utilities, equipment and supplies and miscellaneous expenses. These administrative expenses are funded from employer contributions.

Net Asset Accounts - As provided by the Code, all assets of the System must be credited according to the purpose for which they are held to the annuity savings fund, the pension accumulation fund or the post-retirement increase fund. These funds are classified together as net assets held in trust for pension benefits for financial reporting purposes and are explained as follows:

Notes to Financial Statements

Annuity Savings Fund Balance Account - This Account records the accumulated contributions credited to individual members' accounts together with the interest thereon. Upon termination of employment, accumulated contributions plus interest are refunded from this fund. When a member retires, the member's accumulated contributions plus interest are transferred to the Pension Accumulation Fund Balance Account.

Pension Accumulation Fund Balance Account - This Account records all accumulated reserves used to pay member pensions and other benefits. The reserves are accumulated from employer contributions, investment income, gains on sales of investments and amounts transferred from the Annuity Savings Fund Balance Account.

Post-Retirement Increase Fund Balance Account - This Account records all investment earnings in excess of valuation requirements transferred from the Pension Accumulation Fund Balance Account in order to finance post-retirement allowance increases to retired members.

At June 30, 2010 and 2009, the balances in the legally required accounts are as follows:

	2010	**2009**
Annuity Savings Fund	$447,377,958	$ 417,514,605
Pension Accumulation Fund	1,294,070,239	1,130,734,551
Post-Retirement Increase Fund	44,822,778	46,042,674
Net Assets Held in Trust for Pension Benefits	$1,786,270,975	$1,594,291,830

3. Contributions

System members contribute a percentage of their salary to the System determined by County Code. The contribution rates for members hired prior to July 1, 2007 is actuarially determined based on the member's age at enrollment and employee classification. Contribution rates for members hired on or after July 1, 2007 are fixed based on employee classification. A chart of member contribution rates is provided in the Summary of Plan Provisions in the Actuarial Section of this report.

The participating employers are required to contribute on an actuarially determined basis. Per Section 5-1-203 of the Code, contribution requirements of the plan members and the participating employers are established and may be amended by the Board. The FY 2010 Schedule of Employers' Contributions is shown below.

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	$57,976,378	100%

4. Funding Policy

A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The System funding objective is to meet long-term benefits through annual employer contributions that remain approximately level as a percentage of covered payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. Based on the latest actuarial valuation, the FY 2009 Schedule of Funding Progress is shown below in thousands.

Notes to Financial Statements

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a % of Covered Payroll ((b-a)/c)
2009*	$2,143,616	$2,599,670	$456,054	82.5%	$506,908	90.0%

*Actuarial Asset Method is revised to remove 14% Corridor Around Market Value and the Smoothing period was changed from 4 to 5 years. Salary increase rates for all members are reduced.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The County's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in this report. The six year “Schedule of Funding Progress,” providing historical trend information, found in the Required Supplementary Information of the Financial Section, expresses plan net assets as a percentage of the actuarial accrued liability, providing one indication of the System’s funding status on a going-concern basis.

Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Trends in the unfunded actuarial accrued liability (or excess of) as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System’s progress made in accumulating sufficient assets to pay benefits when due. The six year “Schedule of Employer Contributions” found in the Required Supplementary Information of the Financial Section, includes historical trend information about the annual required contributions (ARC) of the employers and the contributions made by the employers in relation to the ARC. The System’s percentages indicate a financially sound retirement system.

Information about the actuarial methods and assumptions used to determine the funded status and the ARC is presented below:

Valuation Date:	June 30, 2009
Actuarial Cost Method(1):	Projected Unit Credit
Normal Cost Allocation:	Service
Amortization Method:	Level percent closed
Remaining Amortization Period:	29 Years
Asset Valuation Method(2):	5-year smoothed market without corridor
Actuarial Assumptions:	
-Investment Rate of Return(3)	7.875%
-Projected Salaried Increases(3)	3.00% – 7.50%
-Cost-of-Living Adjustments(4)	None
-Mortality Rates(5)	Based on the 1995 George B. Buck Mortality Table +1

1. Cost Method changed to Projected Unit Credit for June 30, 2005 valuation. All pre-FY07 contributions determined using Entry Age Normal.
2. Actuarial Asset Method was revised to remove 14% Corridor Around Market Value and the smoothing period was changed from 4 to 5 years for June 30, 2009 valuation.
3. Includes Inflation at 3%.
4. Increases equal to the CPI up to a maximum of 4% are granted only if sufficient reserves have accumulated in the Post-Retirement Increase Fund Balance Account.
5. The mortality rates based on the 1995 George B. Buck Mortality Table is presented on Page 52 in the Actuarial Section of this report.

Notes to Financial Statements

5. Cash Deposits, Investments and Securities Lending

Custodial Credit Risk – For Cash Deposits, Investments and Securities Lending, custodial credit risk is the risk that, in the event of the failure of the bank or counterparty, the System will not be able to recover the deposits, value of its investments or collateral securities that are in possession of an outside party. The System cash deposits are fully covered by FDIC insurance and/or collateral pledged to the System's account held by the System's agent in the System's name at year-end. The collateral pledged and held consists of obligations issued by the U.S. government and agencies. Investment securities are registered in the name of the System. As of June 30, 2010, the carrying amount of cash was $421,258.

Investment Policy – Pursuant to Section 5-1-247 of the Baltimore County Code, the Board of Trustees utilizes the "prudent person" standard for managing the assets of the System. The Board has established the following policies:

1) Assure that the System's investment policy has been designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and minimize the risk of large losses to the System.

2) Employ a diversity of investment managers with different investment styles on how to obtain their investment objective.

3) Closely monitor the performance of all investment managers not only in relation to specific objectives, but also in relation to other fund managers following the same investment objectives.

The System is currently invested in stocks (domestic and foreign), fixed income securities, private equity funds, real estate, hedge fund of funds, global asset allocation funds and real assets. The Code provides for full power to hold, purchase, sell, assign, transfer and dispose of any of the securities and investments in any of the System's funds.

For the year ended June 30, 2010, the System has operated in all material respects within accordance of the System's investment policy.

Investment

The following is a maturity schedule of the System's fixed income investments of bonds and short term investments.

Investment Maturities (in Years)

(expressed in thousands)

Investment Type	Fair Value	Less than 1	1 - 4.9	5 - 9.9	10-19.9	20-30	More Than 30
U.S. Govt. Obligations	$ 101,706	$ 34	$ 21,420	$ 33,806	$ 19,516	$23,619	$ 3,311
U.S. Agency Securities	63,836	2,492	6,609	19,797	10,059	24,879	-
Municipals	1,255	-	-	-	-	148	1,107
Corporate Debt	127,548	6,456	31,932	26,870	18,802	24,367	19,121
Bond Mutual Funds	177,205	-	-	177,205	-	-	-
Foreign Debt	28,473	16,537	2,618	6,644	788	1,166	720
Total	$500,023	$25,519	$62,579	$264,322	$49,165	$74,179	$24,259

Interest Rate Risk – The Employees' Retirement System of Baltimore County policy guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The manager of each fixed income portfolio is responsible for determining the average maturity of their portfolio.

Notes to Financial Statements

Credit Risk - The System's investment policy is to apply 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. Investment in high yield securities are limited to 20% in the guidelines for fixed income managers, except for Pimco Diversified Fixed Income Fund, which targets 1/3 of their portfolio in high yield securities.

As of June 30, 2010, the System's fixed income investments had the following risk characteristics:

Moody's Ratings or Comparable	Market Value (In Thousands)	Percent of Fixed Income Investments
AAA	$ 174,731	34.95%
AA	8,601	1.72
A	43,599	8.72
BBB	28,236	5.65
BB	6,537	1.31
B	7,152	1.43
CCC	5,823	1.16
CC	954	0.19
C	61	0.01
D	715	0.14
NR*	223,614	44.72
Total	$500,023	100.00%

*NR represents securities not rated, primarily made up of swaps and commingled funds, which by their nature do not have credit quality ratings.

Investments in Excess of 5% of Net Assets Held in Trust for Pension Benefits

The System had no investments at fair value in excess of 5% of the System's net assets held in trust for pension benefits as of June 30, 2010.

Investment Commitments

As of June 30, 2010, the System had $48 million in outstanding private equity commitments.

Foreign Investments/Forward Exchange Contracts – Foreign investments include equity and fixed income securities. In conjunction with certain foreign investments, the System has entered into forward exchange contracts to sell or purchase certain foreign currencies at specified rates at stated dates. The System continues to invest in similar contracts. At June 30, 2010, the System's contracts to purchase and sell by foreign currencies were as follows:

Forward Exchange Contracts as of June 30, 2010

Currency	Purchases	Unrealized Gain/(Loss)
Euro Currency unit	$51,109	($79)
Danish Krone	46,597	(60)
	$97,706	($139)

Notes to Financial Statements

Foreign Currency Risk

The System's exposure to foreign currency risk is derived from its positions in foreign currency-denominated common stock and fixed income investments. The Systems exposure to foreign currency risk as of June 30, 2010 is as follows:

Currency	Fair Value ($ in thousands)
Australian Dollar	$3,657
British Pound Sterling	13,488
Danish Krone	1,460
Euro Currency Unit	48,540
Hong Kong Dollar	9,461
Japanese Yen	28,936
Norwegian Krone	563
Singapore Dollar	1,385
South Korean Won	4,117
Swedish Krona	3,635
Swiss Franc	8,259
Total	$123,501

Future contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value. The System entered into certain futures contracts of which the notional value at June 30, 2010 are as follows:

Futures Contracts as of June 30, 2010

Currency	Buy Contracts	Sell Contracts
US 10YR NOTE FUTURE (CBT)	-	$11,632,617
US 5YR TREAS NTS FUT(CBT)	-	1,360,503
US ULTRA BOND (CBT)	$6,752,800	-

The System utilizes certain derivative instruments for the purpose of obtaining income or profit. The derivatives are subject to credit risks, interest rate risk, and foreign currency risk. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value as of June 30, 2010	
Investment Derivatives:	Classification	Amount	Amount	Notional Value
Futures		-	-	$6,250,937
Options	Unrealized Gain	$19,117	$15,446	2,941,118
Swaps	Unrealized Loss	($370,974)	($562,412)	$3,384,418

Rationale for Derivative strategies:

The purpose of using futures and options is to hedge the portfolio to reduce risk and adjust exposure along the yield curve. A short position in total options reduces the portfolio's convexity in exchange for higher yield. A long position increases convexity in exchange for lower yields.

Notes to Financial Statements

The effect of long and short treasury notes and bond futures is to shift the portfolio's duration to its target position.

The combined effect of Eurodollar and Euribor futures and options is to adjust exposure to the front portion of the yield curve.

Long and short call and put options on notes and bond futures are used to adjust portfolio convexity in exchange for higher yields.

Credit default indices and credit default swaps on individual names are used as an efficient, low cost way of adjusting credit exposure on the margin.

Securities Lending Transactions **-** The Board's policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian lends U.S. government and agency securities, corporate bonds and stocks for collateral in the form of cash, other securities and irrevocable bank letters of credit. Collateral securities, letters of credit and cash are initially pledged at 102% of the market value of the securities lent. Additional collateral is to be provided by the next business day if the collateral value falls to less than 100% of the market value of the securities lent. The System did not impose any restrictions during the fiscal year on security loans the custodian made on its behalf. At June 30, 2010, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System cannot pledge or sell collateral securities received unless the borrower defaults. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in both a separately managed fixed income account and a cash collateral pool, which at year-end has a weighted-average maturity of 13 days. The collateral held as of June 30, 2010 and 2009 was $92,153,741 and $126,205,223, respectively. The fair value of securities on loan as of June 30, 2010 and 2009 totaled $89,252,988 and $121,997,087, respectively. At June 30, 2010, the cash collateral pool had an unrealized loss of approximately $1.7 million which is recorded in the Statement of Changes in Plan Net Assets as a decrease in the fair value of investments for securities lending.

6. Risk Management

The County bears any risk of loss related to the System (e.g. torts, theft of, damage to, or destruction of assets; errors or omissions, job-related illnesses, or injuries to employees; and natural disasters). The County manages its risks internally and sets aside assets for claims settlement in an internal service fund.

7. Litigation

The U.S. Equal Employment Opportunity Commission (EEOC) has sued Baltimore County and six (6) County Unions claiming that they violated the Age Discrimination in Employment Act (ADEA) by requiring employees who join the retirement system as older workers to contribute more than workers who joined at a younger age. The United States District Court for the District of Maryland granted Baltimore County's Motion for Summary Judgment on January 21, 2009. The Fourth Circuit Court of Appeals reversed and remanded the case to the District Court. The County believes that it will prevail again on remand. The County has also called upon its long-term actuary, Buck Consultants, to defend, indemnify and hold the County harmless in the action. EEOC's claim for "excess contributions" by older workers is estimated to be $17 million to $19 million. The Employees' Retirement System of Baltimore County would absorb any potential liability through higher member contributions.

8. Subsequent Events

There were no subsequent events or transactions occurring after June 30, 2010, but prior to December 17, 2010 that provided additional evidence about conditions that existed at June 30, 2010.

Required Supplementary Information
(Unaudited)

Six-year historical trend information about the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other public employee retirement systems.

Schedule of Funding Progress
($ in thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a % of Covered Payroll ((b-a)/c)
2004(1)	$1,803,811	$1,924,543	$120,732	93.7%	$370,639	32.6%
2005(2)	1,832,922	1,949,611	116,689	94.0	388,052	30.1
2006	1,938,817	2,078,812	139,995	93.3	425,400	32.9
2007(3)	2,101,023	2,289,452	188,429	91.8	439,913	42.8
2008(4)	2,191,623	2,491,342	299,719	88.0	479,654	62.5
2009(5)	2,143,616	2,599,670	456,054	82.5	506,908	90.0

(1) Asset method change: difference between expected and actual return on market value smoothed over 4 years.
(2) Cost method change: from Entry Age Normal to Projected Unit Credit.
(3) Assumption changes recommended in 2006 experience study were adopted, plus plan changes to all groups including implementation of DROP programs for general employees, correctional officers and deputy sheriffs.
(4) Amortization period was changed to 30 years. The amendments of GASB Statement No. 50 were recognized, but they had no impact on the information disclosed.
(5) Actuarial Asset Method is revised to remove 14% Corridor Around Market Value and the smoothing period was changed from 4 to 5 years. Salary increase rates for all members are reduced.

Schedule of Employers' Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	$29,967,618	100%
2006	34,433,062	100
2007	40,065,314	100
2008	44,167,525	100
2009	49,762,854	100
2010	57,976,378	100

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information regarding the assumptions and methods used as of the latest actuarial valuation may be found in "Note 4 – Funding Policy" in the notes to the financial statements, and in the Actuarial Section of this report.

Supplementary Supporting Schedules

Schedule of Investment Expenses
For the Years Ended June 30, 2010 and 2009

	2010	2009
Investment Managers:		
Equity managers	$ 3,678,626	$ 3,153,677
Fixed Income managers	1,813,237	1,656,543
Real Estate managers	732,342	1,067,023
Hedge Fund managers	948,118	892,964
Private Equity managers	1,477,702	1,434,591
Global Asset Allocation managers	2,213,166	1,825,466
Real Asset managers	14,193	-
Total manager fees	10,877,384	10,030,264
Investment Service Fees:		
Custodian fees	292,606	292,271
Consultant fees	209,874	223,584
Total service fees	502,480	515,855
Subtotal - Investment Expenses	11,379,864	10,546,119
Security Lending Fees:		
Agent fees	160,081	502,073
Borrower rebates	(87,498)	1,528,132
Total Security Lending fees	72,583	2,030,205
Total Investment Expenses	$11,452,447	$12,576,324

Schedule of Administrative Expenses
For the Years Ended June 30, 2010 and 2009

	2010	2009
Personal Services:		
Salaries	$ 475,697	$ 462,085
Employee Fringe benefits	157,312	149,860
Total Personal Services	633,009	611,945
Professional Services:		
Actuarial	233,410	68,856
Legal and Financial	16,992	36,769
Data Processing	92,310	82,502
Medical	26,462	37,752
Audit	29,300	37,378
Total Professional Services	398,415	263,257
Communication:		
Printing	8,998	10,519
Telephone	2,368	2,186
Postage	34,883	45,557
Total Communication	46,249	58,262
Miscellaneous:		
Equipment and Supplies	21,166	13,940
Total administrative expenses	$1,098,898	$947,404

Board of Trustees

The members of the Board serve without compensation.