

***INTRODUCTORY
SECTION***

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to
Employees' Retirement System
of Baltimore County, Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandson

President

Jeffrey R. Emer

Executive Director

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EMPLOYEES' RETIREMENT SYSTEM OF BALTIMORE COUNTY



Letter of Transmittal

The Board of Trustees
Employees' Retirement System of Baltimore County
Towson, Maryland 21204

December 20, 2011

The Comprehensive Annual Financial Report of the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ended June 30, 2011, is submitted herewith. The System is a Pension Trust Fund included in the financial statements of Baltimore County, Maryland. The System administration is responsible for the accuracy and fairness of the information contained in this report. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in conformity with accounting principles generally accepted in the United States of America.

Generally accepted accounting principles require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A may be found immediately following the report of the independent auditors.

Plan History. The System, a defined benefit plan, was established January 1, 1945 by County ordinance. The authority to establish and maintain the System is specified in Section 5-1-101 of the Baltimore County Code. Membership in the System is open to employees in both the classified and unclassified service of Baltimore County, and employees of the Baltimore County Revenue Authority, the Baltimore County Board of Education, the Baltimore County Board of Library Trustees and the Community College of Baltimore County who are not eligible to participate in the Maryland State Retirement and Pension Systems. Direct appointees of the Governor of Maryland, temporary employees and employees for whom there are existing pension provisions are excluded. System membership is compulsory for general County classified employees after two years of service. Immediate membership is mandatory for police officers and firefighters as a condition of employment. Membership is optional for part-time employees.

Benefits and Services Provided. The System provides normal service retirement and discontinued service retirement benefits for members who attain the age and service requirements. Coverage for occupational disability benefits is immediate upon entry into the System. Disability benefits for non-occupational related injury or illness are provided to vested members. Members hired prior to July 1, 2007 are vested after five years of creditable service. Members hired on or after July 1, 2007 are vested after ten years of creditable service. Occupational death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of their job. Ordinary Disability benefits are provided to Police Officers and Firefighters after one year of creditable service and after five years of creditable service to all other members.

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Letter of Transmittal, continued

Post-Retirement Cost-of-Living Adjustments (COLAs) are granted annually to members who have been retired for more than 60 months. For active members who select the DROP program, the eligibility period to receive COLAs in the DROP remains a minimum of 12 months. Once the member actually retires, the eligibility period for a post-retirement COLA is a minimum of 48 months provided sufficient excess investment earnings exist.

The System's staff provides benefit counseling to benefit applicants throughout the year. Additionally, the staff makes benefit presentations at new employee orientations.

INVESTMENT PERFORMANCE

The System investment portfolio gained 21.0% in FY 2011, improving upon the 16.4% returns for FY 2010. All investments categories in the System's portfolio had positive returns. US Common Stocks led the way with gains of 34.2%, followed closely by the International equity portfolio with gains of 28.6%, Real Estate funds with gains of 20.5% and Global Asset Allocation funds with gains of 20.4%.

FUNDING STATUS

For actuarial valuation purposes, returns were smoothed over a five-year period. Beginning FY 2011, returns are smoothed over a 10-year period. The actuarially determined target investment return is a long-term target and significant deviations from this target can be expected. The actuarial cost method applied is projected unit credit. The funded status for FY 2010 and FY 2009 was 80.0%, and 82.5%, respectively, based on the latest available actuarial reports. The decrease is primarily due to experience losses on the actuarial accrued liability and the increase in the appropriation payroll.

INVESTMENT STRATEGIES

Under the experienced direction of its Board of Trustees, the System plans to continue maximizing investment returns while maintaining an acceptable level of risk. The System will continue to invest assets domestically as well as internationally in an effort to maintain an appropriate balance.

During FY 2011, the Board conducted an annual asset allocation review and added an allocation to emerging market debt-local currency. The Board hired one emerging market fixed income manager, and committed to three private equity funds. The Board implemented these changes to better meet the System's long-term risk and return objectives.

MAJOR ISSUES AND INITIATIVES

LEGISLATIVE AND ADMINISTRATIVE CHANGES

Contribution rate changes:

Contribution rate increased for all active members by an additional 0.5% beginning July 1, 2010.

Effective July 1, 2011, all Deputy Sheriffs and sworn members of the Fire Department hired on or after July 1, 2011 the contribution rate is 10.0% (Bill No. 43-11).

Deferred Retirement Option Period (DROP) Bill No. 43-11:

Effective July 1, 2011, a member who was eligible to participate in the forward DROP on July 1, 2007, may elect to begin the DROP retroactive to July 1 2007.

The System entered into a contract with CPAS Systems, Inc. to replace the current pension administration software system with a system that is highly configurable and provides full support for the County's defined benefit plan. The scope of this project includes a comprehensive retirement and pension administration software application that is web based for self-service access. Implementation is underway and is expected to be completed by March 2013.

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Letter of Transmittal, continued

FINANCIAL INFORMATION

Accounting System. The System's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, contributions and investment income are recorded when earned regardless of the date of collection and benefits and other expenses are recorded when liabilities are incurred regardless of when payment is made.

Internal Control. In developing and evaluating the accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. Management believes the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Investments. As provided in Article 5, Title 1 of the Baltimore County Code, the Board of Trustees is empowered to invest the System's assets utilizing the "prudent person" standard and to take appropriate action regarding the investment, management and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

The Board of Trustees has carefully exercised these responsibilities by diversifying the assets into stocks (domestic and foreign), fixed income securities, private equity funds, real estate funds, global asset allocation funds, hedge fund of funds and real assets (i.e. physical or identifiable asset such as gold, land, patents etc.). The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results which will preserve the System's assets and to maximize the earnings of the System consistent with its long-term needs.

A pension investment consultant has been appointed to advise and consult with the Board of Trustees and the System staff, prepare recommendations on investment policies, investment management structure and asset allocation, and to monitor and evaluate the performance of the investment managers and the asset custodian. For the fiscal year ended June 30, 2011, the System portfolio rate of return was 21.0%. The System had an annualized rate of return of 4.8% over the past three years, and an annualized rate of return of 5.1% over the past five years.

Administration. As provided in Section 5-1-238 of the Baltimore County Code, the general administration of the System is vested in the Director of Budget and Finance of Baltimore County. The Director has the responsibility to implement policies of the Board of Trustees as they pertain to the System and to ensure the System operates within the guidelines as set forth in those policies.

Funding. 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 to the payment of current and future member benefits. The County's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in the required supplementary information of the Financial Section of this report.

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Letter of Transmittal, continued

OTHER INFORMATION

Independent Audit. The County has contracted with a firm of independent certified public accountants to audit the System's financial statements. The independent auditors' report is contained herein.

Professional Services. The Board of Trustees has appointed an actuary, a pension investment consultant, an asset custodian, a medical board and numerous investment managers to provide services to the System. The list of professionals which provide services to the System is found on Pages 7 through 9.

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System of Baltimore County for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the seventeenth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis reflects the combined effort and dedication of the System's staff. On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff who have worked so diligently to assure the successful operation of the System. This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and for determining responsible stewardship for the assets of the System.

Respectfully submitted,



Keith Dorsey
Director of Budget and Finance and
Secretary to the Board of Trustees
Employees' Retirement System of Baltimore County

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Board of Trustees

Joseph H. Zerhusen, Chairman Retiree	Elected by retired membership Four-year term expires November 30, 2012
Fred Homan County Administrative Officer	County Executive Designee
Keith Dorsey Director of Budget and Finance	Ex-officio Trustee
George Gay Director of Human Resources	Ex-officio Trustee
James W. Johnson Chief of Police	Ex-officio Trustee
Edward C. Adams, Jr. Director of Public Works	Ex-officio Trustee
Cole B. Weston President, F.O.P. Lodge # 4	Elected by active membership Four-year term expires November 30, 2012
Michael K. Day President, IAFF Local 1311	Elected by active membership Four-year term expires November 30, 2012

The Ex-officio trustees serve by virtue of their position with Baltimore County.

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Consultants and Professional Services

Actuary

Buck Consultants
Chicago, Illinois

Auditors

Clifton Gunderson, LLP
Baltimore, Maryland

Pension Investment Consultant

NEPC
Cambridge, Massachusetts

EDP Consultant

Levi, Ray & Shoup, Inc.
Springfield, Illinois

Asset Custodian

BNY Mellon
Pittsburgh, Pennsylvania

Medical Board

Rubin Reider, M.D.
Rafael Hernandez, M.D.
Jose Morelos, M.D.

Operational Banking

M & T Bank
Buffalo, New York

Investment Managers

Domestic Equity

Brown Advisory
Baltimore, Maryland

BlackRock
San Francisco, California

Gottex Fund Management
Boston, Massachusetts

Brown Capital Management
Baltimore, Maryland

Earnest Partners
Atlanta, Georgia

Cadence Capital Management
Boston, Massachusetts

Benchmark Plus Mgmt.
Tacoma, Washington

John Hsu Capital Group
New York, New York

Profit Investment Mgmt.
Silver Spring, Maryland

Herndon Capital Management
Atlanta, Georgia

International Equity

Gryphon International Investment Corp.
Toronto Ontario, Canada

LSV Asset Management
Chicago, Illinois

BlackRock
San Francisco, California

Mondrian Investment Partners
Wilmington, Delaware

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Investment Managers, continued

Fixed Income

Pacific Investment Mgmt. Co.
Newport Beach, California

Reams Asset Management
Columbus, Indiana

Earnest Partners
Atlanta, Georgia

Western Asset Management
Pasadena, California

Seix Advisors
Upper Saddle River, New Jersey

Loomis, Sayles & Company, L.P.
Boston, Massachusetts

Stone Harbor Investment Partners
New York, New York

Private Equity

HarbourVest Partners, Inc.
Boston, Massachusetts

Siguler Guff
New York, New York

Edison Venture Fund
Lawrenceville, New Jersey

Grotech Capital Group
Timonium, Maryland

Mesirow Financial
Chicago, Illinois

Newstone Capital Partners
Los Angeles, California

TCW/Crescent Mezzanine Partners
Los Angeles, California

Paul Capital Partners
San Francisco, California

Energy Spectrum Partners
Dallas, Texas

EIG Global Energy Partners
Washington, District of Columbia

Landmark Equity Partners
Simsbury, Connecticut

Lexington Capital Partners
New York, New York

Real Estate

ING Clarion
New York, New York

Transwestern Investment Co.
Chicago, Illinois

UBS Global Asset Management
Hartford, Connecticut

JP Morgan
New York, New York

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Investment Managers, continued

Hedge Fund of Funds

EIM Management
New York, New York

Federal Street Partners
Stamford, Connecticut

Global Asset Allocation

Bridgewater
Westport, Connecticut

Mellon Capital Mgmt.
San Francisco, California

Wellington Trust Company, NA
Boston, Massachusetts

Real Assets

Gresham Investment Management
New York, New York

Wellington Trust Company, NA
Boston, Massachusetts

Administrative Organizational Chart

