FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Employees' Retirement System of Baltimore County, Maryland (the System), as of and for the years ended June 30, 2008 and 2007, 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 audits 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, 2008 and 2007, and the changes in its 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 23, 2008 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.

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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 these 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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 23, 2008

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, 2008 and 2007. 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 assets exceeded currently payable liabilities at the close of fiscal years 2008 and 2007 by $2.06 billion and $2.25 billion respectively, (reported as total net assets). Total net assets are held in trust to meet future benefit payments of plan participants.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2008 and 2007, the funded ratio was 88.0% and 91.8%, respectively. The decrease is primarily due to the loss on the actuarial accrued liability, the loss on the asset experience and the increase in the appropriation payroll.

- Total additions decreased 112.7% over the prior year from $399,648,394 to ($50,583,077). This decrease was due to the System incurring investment losses due to very unfavorable market conditions, as subprime debt worked its way through the financial system.

- Total deductions decreased 3.3% over the prior year from $143,686,158 to $138,948,904. Most of this decrease represented a reduction in benefit payments in FY 2008.

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 18) and the Statement of Changes in Plan Net Assets (page 19). 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

Total assets as of June 30, 2008 and 2007 were $2,485,135,018 and $2,646,985,275, respectively, and were comprised of cash, receivables and investments. Total assets decreased 6.1% or $161,850,257 for FY 2008, due in part to unfavorable market conditions. FY 2008 losses were led by the poor performance of the domestic and international equity portfolio with returns of (13.2%) and 5.9% respectively. Total assets increased 12.6% or $296,008,194 for FY 2007, due in part to favorable returns in all asset categories.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total liabilities that are due and payable as of June 30, 2008 and 2007 were $424,023,793 and $396,342,069 respectively, and were comprised of payables for investment purchases, investment expenses, and obligations under securities lending. For FY 2008 total liabilities increased 7.0% or $27,681,724 from the prior year primarily due to an increase in payables for collateral for loaned securities. For FY 2007 total liabilities increased 11.2% or $40,045,958 from the prior year primarily due to an increase in payables for collateral for loaned securities.

System assets exceeded its due and payable liabilities at the close of fiscal year 2008 and 2007 by $2,061,111,225 and $2,250,643,206, respectively. In fiscal year 2008, total net assets held in trust for pension benefits decreased 8.4% or $189,531,981 from the previous year primarily due to unfavorable market conditions resulting from the subprime debt affecting the financial sector. In fiscal year 2007, total net assets held in trust for pension benefits increased 12.8% or $255,962,236 from the previous year primarily due to favorable market conditions.

BALTIMORE COUNTY EMPLOYEES' RETIREMENT SYSTEM
PLAN NET ASSETS
AS OF JUNE 30, 2008, 2007 AND 2006
(IN THOUSANDS)

	2008	2007	2006	2008-2007 Total % Change	2007-2006 Total % Change
ASSETS					
Cash and Short Term Investments	$ 88,274	$ 75,851	$ 74,172	16.4 %	2.3 %
Collateral for Loaned Securities	246,762	193,370	163,763	27.6	18.1
Receivables	76,756	84,620	100,520	(9.3)	(15.8)
Investments	2,073,343	2,293,144	2,012,522	(9.6)	13.9
Total Assets	2,485,135	2,646,985	2,350,977	(6.1)	12.6
LIABILITIES					
Accounts Payable and Other Accrued Liabilities	177,262	202,972	192,533	(12.7)	5.4
Obligations Under Securities Lending	246,762	193,370	163,763	27.6	18.1
Total Liabilities	424,024	396,342	356,296	7.0	11.2
Total Net Assets	$2,061,111	$2,250,643	$1,994,681	(8.4) %	12.8 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

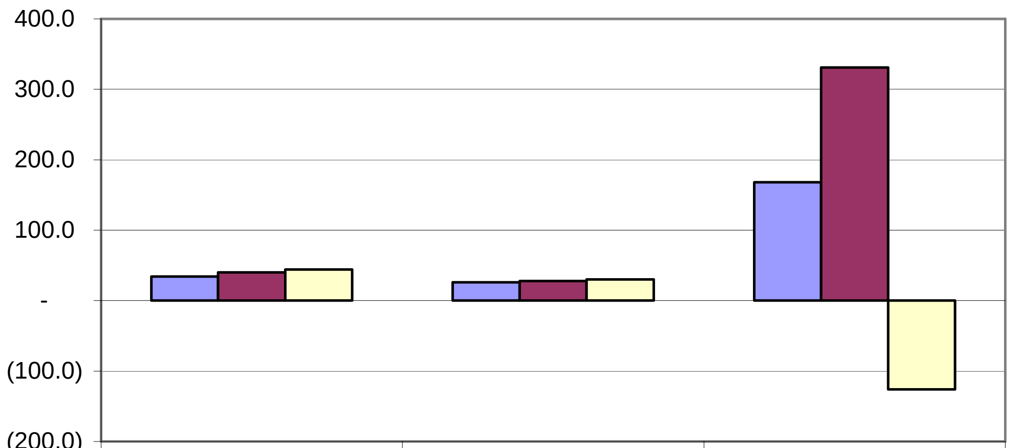
Total additions for FY 2008 decreased 112.7% or $450,231,471 over FY 2007, due primarily to a decrease in investment income. Total additions for FY 2007 increased 75.2% or $171,503,847 over FY 2006 due primarily to an increase in investment income. Total deductions for FY 2008 decreased 3.3% or $4,737,254 over FY 2007 due to a decrease in benefit payments. Total deductions for FY 2007 increased 11.4% or $14,721,837 over FY 2006 due to an increase in benefit payments.

BALTIMORE COUNTY EMPLOYEES' RETIREMENT SYSTEM
CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008, 2007 AND 2006
(IN THOUSANDS)

	2008	2007	2006	Total % Change	Total % Change
ADDITIONS					
Contributions	$ 74,130	$ 67,838	$ 60,606	9.3 %	11.9 %
Investment Income	(125,755)	331,413	167,112	(137.9)	98.3
Net Income From Security Lending	1,042	397	426	162.5	(6.8)
Total Net Investment Gain (Loss)	(124,713)	331,810	167,538	(137.6)	98.1
Total Additions	(50,583)	399,648	228,144	(112.7)	75.2
DEDUCTIONS					
Benefits	134,991	139,357	125,253	(3.1)	11.3
Refunds of Contributions	2,949	3,263	2,674	(9.6)	22.0
Administrative Expenses	1,009	1,066	1,037	(5.3)	2.8
Total Deductions	138,949	143,686	128,964	(3.3)	11.4
Net Increase (Decrease)	(189,532)	255,962	99,180	(174.0)	158.1
Net Assets Held in Trust for Pension Benefits					
Beginning of Year	2,250,643	1,994,681	1,895,501	12.8	5.2
End of Year	$2,061,111	$2,250,643	$1,994,681	(8.4) %	12.8 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Addtions to Plan Net Assets
($ in Millions)



	Employer Contributions	Member contributions	Net Investment Income (Loss)
2006	34.4	26.2	168
2007	40.0	27.8	331
2008	44.0	30.0	(126)

REVENUES – ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income (loss) for fiscal years 2008 and 2007 totaled ($50,583,077) and $399,648,394, respectively.

Additions decreased for FY 2008 by $450,231,471 from that of the prior year, due primarily to a decrease in the investment income. Additions increased for FY 2007 by $171,503,847 from that of the prior year, due primarily to an increase in the investment income. Total employer contributions for FY 2008 increased over FY 2007 by $4,102,211 or 10.2%, while member contributions increased by $2,189,463 or 7.9%. Total employer contributions for FY 2007 increased over FY 2006 by $5,632,252 or 16.4%, while member contributions increased by $1,599,212 or 6.1%. The increase in employer contributions was primarily due to asset experience and other factors including increase in payroll and increase in scheduled accrued liability contributions. For the fiscal years ended 2008 and 2007, the rates of return based on the actuarial value were 7.5% and 12.5%, respectively.

For FY 2008 total investment income decreased from the previous year by $456,523,145. The total portfolio returned (4.5%) for fiscal year ended June 30, 2008. This return under-performed the System's performance benchmark of (3.8%). The leading under-performers for FY2008 were U.S. equity and foreign equity investments returning (13.2%) and (5.9%) respectively, while private equity investments returned 18.1%, and fixed income investments 4.0% which helped to offset the overall loss to the System.

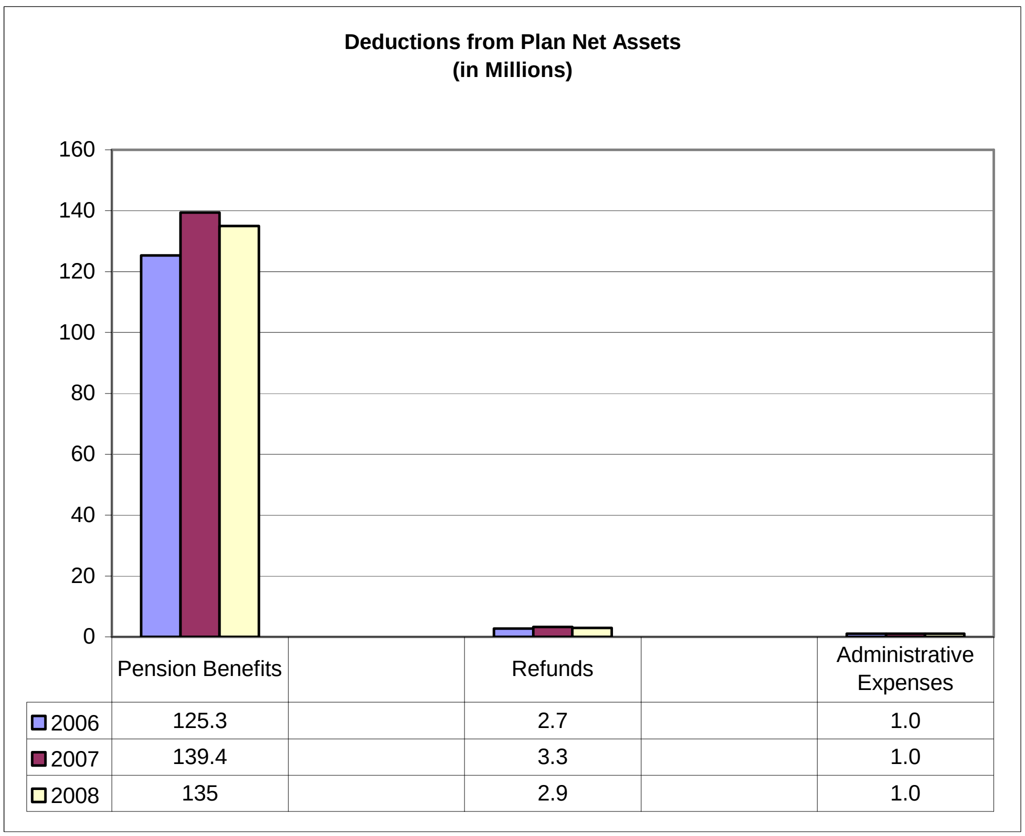
For FY 2007 total investment income increased from the previous year by $164,272,383. The total portfolio returned 17.2% for fiscal year ended June 30, 2007. This return under-performed the System's performance benchmark of 17.6%. U.S. equity investments returned 19.8%, foreign equity investments returned 32.5%, private equity investments returned 20.7%, and fixed income investments returned 6.2%.

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. Total deductions for FY 2008 was $138,948,904 a decrease of 3.3% over FY 2007. Total deductions for FY 2007 was $143,686,158 an increase of 11.4% over FY 2006.

The payment of pension benefits decreased by 3.0% or $4,366,032 in FY 2008 from the previous year, and increased by 11.3% or $14,104,029 in FY 2007 over FY 2006. The decrease in pension benefit expenditures in FY 2008 resulted from a decrease in drop eligible retirees. The increase in pension benefit expenditures in FY 2007 resulted from an increase in retirees. The net number of additional retirees was 49 and 229 in FY 2008 and FY 2007, respectively. Administrative expenses for FY 2008 decreased by 5.39% or $57,493 from the previous year and increased for FY 2007 by $29,502 or 2.9%.



RETIREMENT SYSTEM AS A WHOLE

As a result of major concerns in the housing and financial sector, total net assets decreased by $190 million in FY 2008. For the first time in five years, the System did not achieve its assumed rate of return of 7.875%. The System's funding ratio, as determined by the County's actuary, was 88.0% at June 30, 2008 and 91.8% at June 30, 2007. The Board continues to utilize the concepts of prudent investment management, cost controls and strategic planning.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

OTHER SIGNIFICANT MATTERS

Since June 30, 2008, financial markets as a whole have incurred significant declines in values. As of December 23, 2008, the System's investment portfolio has incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the System will recognize in its future financial statements, if any, cannot be determined.

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, 2008 and 2007

	2008	2007
Assets:		
Cash and short term investments	$ 88,274,264	$ 75,850,788
Collateral for loaned securities	246,762,461	193,370,293
Receivables:		
Accrued interest and dividend income	4,914,551	8,848,081
Receivable for investments sold	71,318,882	75,029,218
Receivables - other	521,418	742,882
Total Receivables	76,754,851	84,620,181
Investments, at fair value		
U.S. Government and agency securities	191,985,868	255,276,382
Foreign bonds	16,809,083	15,959,072
Corporate bonds	180,728,804	151,437,778
Stocks	458,706,660	735,036,218
Bond mutual funds	160,715,460	180,440,507
Stock mutual funds	553,860,943	469,412,978
Real estate equity funds	115,354,208	108,750,476
Hedge funds	106,034,860	109,071,371
Private equity funds	76,779,590	58,493,900
Global Asset Allocation	212,367,966	209,265,331
Total Investments	2,073,343,442	2,293,144,013
Total Assets	2,485,135,018	2,646,985,275
Liabilities:		
Investment expenses payable	2,742,771	2,929,733
Refunds payable	432,113	288,402
Payable for investments purchased	173,977,077	199,620,699
Payable for collateral for loaned securities	246,762,461	193,370,293
Payables - other	109,371	132,942
Total Liabilities	424,023,793	396,342,069
Net Assets Held in Trust for Pension Benefits (A schedule of funding progress for the plan is presented on page 30)	$2,061,111,225	$2,250,643,206

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, 2008 and 2007

	2008	2007
Additions		
Contributions:		
Employers	$ 44,167,525	$ 40,065,314
Members	29,962,038	27,772,575
Total contributions	74,129,563	67,837,889
Investment Income:		
Net change in the fair value of investments	(158,309,808)	284,042,826
Interest and dividends	44,908,353	57,896,540
	(113,401,455)	341,939,366
Less: Investment expenses	(12,353,492)	(10,526,554)
Net Investment Income (Loss)	(125,754,947)	331,412,812
Net Income from Securities Lending:		
Securities Lending Income	9,594,480	9,859,180
Less:		
Borrower Rebates	(8,077,590)	(9,289,848)
Agent Fees	(474,583)	(171,639)
Net Income from Securities Lending	1,042,307	397,693
Total Net Investment Gain (Loss)	(124,712,640)	331,810,505
TOTAL ADDITIONS	(50,583,077)	399,648,394
Deductions		
Benefits	134,991,271	139,357,303
Refunds of contributions	2,948,979	3,262,708
Administrative expenses	1,008,654	1,066,147
TOTAL DEDUCTIONS	138,948,904	143,686,158
Net Increase (Decrease)	(189,531,981)	255,962,236
Net assets held in trust for pension benefits		
Beginning of year	2,250,643,206	1,994,680,970
End of year	$2,061,111,225	$2,250,643,206

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.

At June 30, 2008 and 2007, System membership consisted of:

	2008	2007
Retirees and beneficiaries currently receiving benefits		
General employees, correctional officers and deputy sheriffs	4,548	4,521
Firefighters and police officers	1,902	1,880
Terminated employees entitled to benefits but not yet receiving them		
General employees, correctional officers and deputy sheriffs	422	409
Firefighters and police officers	54	51
Total retirees and beneficiaries	6,926	6,861
Current employees		
Vested - Full-time employees		
General employees, correctional officers and deputy sheriffs	3,880	3,867
Firefighters and police officers	2,352	2,308
Non-vested - Full-time employees		
General employees, correctional officers and deputy sheriffs	1,771	1,698
Firefighters and police officers	561	588
Part-time employees		
Vested - General employees	570	551
Non-vested - General employees	436	459
Total active members	9,570	9,471
Non-Vested Terminations with account balances	110	100
Members on leave of absence		
General employees, correctional officers and deputy sheriffs	43	18
Firefighters and police officers	16	5
Total members on leave of absence	59	23
Grand Total	16,665	16,455

Notes to Financial Statements

Note 1. continued

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 (Deferred Retirement Option Program), 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 can be granted to a member who can no longer perform their job due to a non-occupational related injury. A member, hired prior to July 1, 2007, must have five years of creditable service and be medically certified as incapacitated for continued performance of their duties. A member, hired on or after July 1, 2007, 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 can be granted to a member who has been incapacitated for duty as a result of an occupational related injury. The accidental disability retirement allowance is determined in accordance with Section 5-1-225 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.

Notes to Financial Statements

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).

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.
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. If hired prior to July 1, 2007, with less than 20 years of creditable service at retirement: 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. If hired on or after July 1, 2007, with less than 20 years of creditable service at retirement: 1.43% of AFC times the number of years of creditable service.

Notes to Financial Statements

Employee designation	Allowance formula for Vested Employees
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

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, post-retirement allowance adjustments may be granted to retirees who have been retired for more than 12 months, each July 1. 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.

2. Summary of Significant Accounting Policies and Plan Asset Matters

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. Private equity funds and hedge fund of funds are valued based on information provided by the respective fund managers.

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 either 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:

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.

Notes to Financial Statements

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, 2008 and 2007, the balances in the legally required accounts are as follows:

	2008	2007
Annuity Savings Fund	$ 391,743,335	$ 363,778,826
Pension Accumulation Fund	1,577,281,011	1,803,179,578
Post-Retirement Increase Fund	92,086,879	83,684,802
Net Assets Held in Trust for Pension Benefits	$2,061,111,225	$2,250,643,206

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. FY 2008 Schedule of Employers' Contributions is shown below.

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$44,167,525	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 to the payment of current and future member benefits. FY 2008 Schedule of Funding Progress is shown below 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)
2008	$2,191,623	$2,491,342	$299,719	88.0%	$479,654	62.5%

Notes to Financial Statements

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, 2008
Actuarial Cost Method*:	Projected Unit Credit
Normal Cost Allocation:	Service
Amortization Method:	Level percent closed
Remaining Amortization Period:	30 years
Asset Valuation Method:	4-year smoothed market
Actuarial Assumptions:	
-Investment Rate of Return**	7.875%
-Projected Salaried Increases**	3.00 – 7.50%
-Cost-of-Living Adjustments***	None
-Mortality Rates****	Based on the 1995 George B. Buck Mortality Table

*Cost Method changed to Projected Unit Credit for June 30, 2005 valuation.
All pre-FY07 contributions determined using Entry Age Normal.
**Includes Inflation at 3%.
***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.
****The mortality rates based on the 1995 George B. Buck Mortality Table is presented on page 52 in the Actuarial Section of this report.

5. Cash Deposits, Investments and Securities Lending

Custodial Credit Risk – The 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, 2008, the carrying amount of cash was $762,757.

Notes to Financial Statements

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 expertise in particular kinds of assets that include stocks, bonds, real estate, private equity and hedge fund of funds.

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

4) 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 and global asset allocation funds. 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, 2008, 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	$ 78,942	-	$ 74	$ 14,246	$ 22,825	$ 15,571	$ 26,226
U.S. Agency Securities	113,044	$4,737	526	2,369	14,841	77,240	13,331
Corporate Debt	180,729	1,845	30,666	42,493	22,745	38,653	44,327
Bond Mutual Funds	160,715	-	9,272	143,321	3,310	4,812	-
Foreign Debt	16,809	1,459	2,854	4,254	3,605	4,180	457
Total	$550,239	$8,041	$43,392	$206,683	$67,326	$140,456	$84,341

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 increasing interest rates. The manager of each fixed income portfolio is responsible for determining the average maturity of their portfolio.

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 manager, except for Pimco Diversified Fixed Income Fund, which targets 1/3 of their portfolio in high yield securities.

Notes to Financial Statements

As of June 30, 2008, the System's fixed income investments had the following risk characteristics:

Moody's Ratings or Comparable	Percent of Total Fund	Market Value (In Thousands)
AAA	13.92%	$ 288,551
AA	0.77	15,957
A	1.15	23,867
BBB	1.98	40,982
BB	0.48	9,898
B	0.49	10,177
CCC	0.09	1,954
Ca	0.03	519
NR*	7.64	158,334
Total	26.55 %	$550,239

*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, 2008.

Investment Commitments

As of June 30, 2008, the System had $45 million in outstanding private equity commitments and $2.8 million in outstanding real estate 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. At June 30, 2008, the System had cash and cash equivalent futures of $36.7 million in open forward exchange contracts. The System continues to invest in similar contracts. The Board's investment policy guidelines include a section on derivatives which speaks to the use of futures, forwards and other derivative instruments and securities. These guidelines strictly prohibit the use of derivatives to create leverage, create exposure to currencies and securities that would not otherwise be allowed, or increase the actual or potential risk of the portfolio.

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, 2008 is as follows:

Currency	Fair Value ($ in thousands)
Australian Dollar	$ 6,263
British Pound Sterling	27,689
Danish Krone	6,159
Euro Currency Unit	61,176
Hong Kong Dollar	4,249
Japanese Yen	27,832
Malaysian Ringgit	1
Norwegian Krone	1,459
Singapore Dollar	1,127
South Korean Won	3,082
Swedish Krona	3,749
Swiss Franc	11,949
Total	$154,735

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, 2008, 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 fair value of securities on loan as of June 30, 2008 and 2007 totaled $245,141,289 and $220,981,312, respectively.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted-average maturity of 22 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the security loans made by other entities that use the agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults.

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.

Notes to Financial Statements

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 County believes that the legal premise for the action is flawed and will vigorously defend the suit. 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 Event - Declines in Investment Values

Since June 30, 2008, financial markets as a whole have incurred significant declines in values. As of December 23, 2008, the System's investment portfolio has incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the System will recognize in its future financial statements, if any, cannot be determined.

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)
2003(1)	$1,740,713	$1,830,584	$89,871	95.1%	$361,013	24.9%
2004(2)	1,803,811	1,924,543	120,732	93.7	370,639	32.6
2005(3)	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(4)	2,101,023	2,289,452	188,429	91.8	439,913	42.8
2008(5)	2,191,623	2,491,342	299,719	88.0	479,654	62.5

(1) Assumption changes recommended in 2001 experience study were adopted, amortization period was changed to 25 years, Police and Fire DROP were added and Fire (joint and 50) eligibility was changed to 25 years.
(2) Asset method change: difference between expected and actual return on market value smoothed over 4 years.
(3) Cost method change: from Entry Age Normal to Projected Unit Credit.
(4) 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.
(5) 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.

Schedule of Employers' Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	$18,240,994	100%
2004	24,617,291	100
2005	29,967,618	100
2006	34,433,062	100
2007	40,065,314	100
2008	44,167,525	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, 2008 and 2007

	2008	2007
Investment Managers:		
Equity managers	$ 4,521,368	$ 4,686,222
Fixed income managers	2,139,877	1,381,049
Real estate managers	1,534,645	1,152,732
Hedge fund managers	1,176,059	1,277,019
Private equity managers	1,258,855	1,284,495
Global asset allocation managers	1,242,321	235,210
Total investment managers fees	11,873,125	10,016,727
Investment Service Fees:		
Custodian fees	289,516	287,174
Consultant fees	190,851	222,653
	480,367	509,827
Investment Expenses	12,353,492	10,526,554
Security Lending Fees:		
Agent fees	474,583	171,639
Borrower rebates	8,077,590	9,289,848
Total Investment Expenses	$20,905,665	$19,988,041

Schedule of Administrative Expenses

For the Years Ended June 30, 2008 and 2007

	2008	2007
Personal Services:		
Salaries	$ 443,736	$ 409,018
Employee Fringe benefits	160,039	10,988
Total Personal Services	603,775	420,006
Professional Services:		
Actuarial	186,199	473,859
Legal and Financial	50,761	24,594
Data Processing	51,185	56,369
Medical	22,295	32,023
Audit	27,127	25,934
Total Professional Services	337,567	612,779
Communication:		
Printing	9,125	11,032
Telephone	3,739	2,016
Postage	37,686	108
Total Communication	50,550	13,156
Miscellaneous:		
Equipment and Supplies	16,762	20,206
Total Miscellaneous	16,762	20,206
Total administrative expenses	$1,008,654	$1,066,147

Board of Trustees

The members of the Board serve without compensation.