

***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, 2007

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.



Clare S. Cox

President

Jeffrey R. Emer

Executive Director

— INTRODUCTORY SECTION —

EMPLOYEES' RETIREMENT SYSTEM OF BALTIMORE COUNTY



Letter of Transmittal

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

December 23, 2008

The Comprehensive Annual Financial Report of the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ended June 30, 2008, 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. After one year of creditable service, members are also covered for non-occupational related death benefits. Post-retirement allowance adjustments are granted annually to members who have been retired for more than 12 months provided sufficient excess investment earnings exist.

— INTRODUCTORY SECTION —

Letter of Transmittal, continued

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

ECONOMIC ENVIRONMENT

The System earned returns of (4.5%) in FY 2008 and 17.2% in FY 2007. This is the first time over the last five years that the System has failed to meet the actuarially determined target return of 7.875%. The negative return in FY 2008 was due to the increasing concerns in the housing and financial markets. For actuarial valuation purposes, returns are smoothed over a four-year period. The actuarially determined target investment return is a long-term target and significant deviations from this target can be expected. To help stabilize the County's contributions, the actuarial cost method applied is projected unit credit. The funded status decreased from 91.8% as of June 30, 2007 to 88.0% as of June 30, 2008.

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.

MAJOR INITIATIVES

Governmental Accounting Standards Board (GASB) Statement No. 50, Pension Disclosure – New Implementation

GASB has established new reporting standards in Statement No. 50, "Pension Disclosures – an amendment of GASB Statement No. 25 and No. 27". GASB Statement No. 50 requires the disclosure of the funded status of the System and the actuarial assumptions and methods as of the latest valuation date in the notes to the financial statements. The System has implemented GASB Statement No. 50 in its June 30, 2008 financial statements.

During FY 2008, the Board replaced one large cap manager with four large cap growth managers as part of an emerging manager program, and hired two portable alpha managers and one private equity manager to further diversify the portfolio. The Board implemented these changes to better meet the System's long term risk and return objectives.

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.

— INTRODUCTORY SECTION —

Letter of Transmittal, continued

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, and hedge fund of funds. 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, 2008, the System earned a rate of return of (4.5%). The System earned an annualized rate of return of 7.0% over the past three years, and 9.0% 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.

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 thirty-four (34) investment managers to provide services to the System. The list of professionals which provide services to the System is found on pages 7 and 8. Additional information regarding investment professionals may be found in the investment section on page 40.

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, 2007. This was the fourteenth 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.

— INTRODUCTORY SECTION —

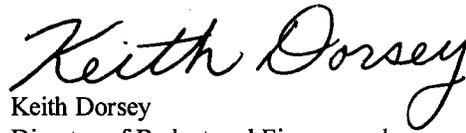
Letter of Transmittal, continued

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

— INTRODUCTORY SECTION —

Board of Trustees

Fred Homan
County Administrative Officer

County Executive Designee

Keith Dorsey
Director of Budget and Finance

Ex-officio Trustee

Joseph H. Zerhusen, Chairman
Retiree

Elected by retired membership
Four-year term expires November 30, 2012

Theresa Stokes Hill
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.
Effective July 1, 2007, the County Executive's designee may serve in place of the County Executive.

— INTRODUCTORY SECTION —

Consultants and Professional Services

Actuary
Buck Consultants
Chicago, Illinois

Auditors
Clifton Gunderson, LLP
Baltimore, Maryland

Pension Investment Consultant
New England Pension Consultants
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

Alex. Brown Investment Mgmt.
Baltimore, Maryland

Barclays Global Investors
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

Atlanta Life Investment Advisor
Atlanta, Georgia

Lynmar Capital Group
Marlton, New Jersey

International Equity

CIBC Asset Management
Toronto Ontario, Canada

LSV Asset Management
Chicago, Illinois

Barclays Global Investors
San Francisco, California

Mondrian Investment Partners
Philadelphia, Pennsylvania

— INTRODUCTORY SECTION —

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

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

Paul Capital Partners
San Francisco, California

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

Hedge Fund of Funds

EIM Management
New York, New York

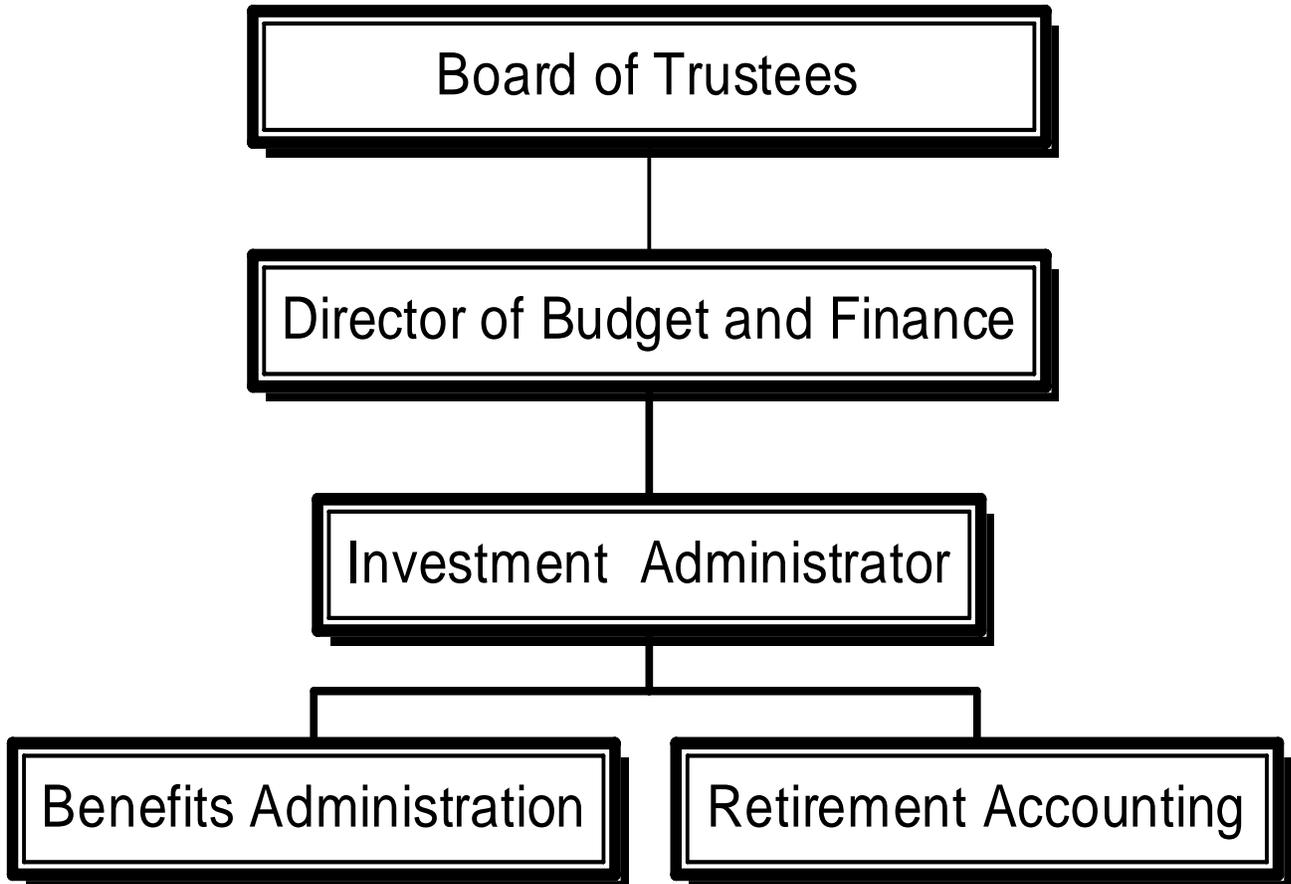
Federal Street Partners
Stamford, Connecticut

Global Asset Allocation

Bridgewater
Westport, Connecticut

Mellon Capital Mgmt.
San Francisco, California

Administrative Organizational Chart



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