

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009



Prepared by the ***Employees' Retirement System***

A Blended Component Unit of
The Maryland-National Capital Park and Planning Commission
6611 Kenilworth Avenue, Suite 100
Riverdale, Maryland 20737

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	4
Certificate of Achievement for Excellence in Financial Reporting for 2008	8
Public Pension Standards 2008 Award	9
Board of Trustees	10
Organizational & Reporting Structure	11
Staff, Consultants & Professional Service Providers	12

FINANCIAL SECTION

Independent Auditor's Report	14
Management's Discussion & Analysis	15
Statements of Plan Net Assets	18
Statements of Changes in Plan Net Assets	19
Notes to Financial Statements	20
Required Supplementary Information	
Schedule of Funding Progress	36
Schedule of Employer Contributions	37
Supplementary Schedules	
Schedule of Administrative Expenses	38
Schedule of Investment Expenses	39
Schedule of Payments to Consultants	40

INVESTMENT SECTION

Investment Manager Directory	42
Investment Consultant's Report	43
Investment Manager Matrix	49
List of Largest Held Domestic Equities	50
List of Largest Held Fixed Income	51
Schedule of Broker Commissions	52

ACTUARIAL SECTION

Actuary's Certification Letter	54
Actuarial Assumptions and Valuation Methods	57
Schedule of Active Member Valuation Data	62
Schedule of Retirants and Beneficiaries Added to and Removed From the Rolls	63
Solvency Test	64

STATISTICAL SECTION

Statistical Section Narrative	66
Schedule of Changes in Net Assets	67
Schedule of Benefit and Refund Deductions from Net Assets by Type	68
Schedule of Average Benefit Payments	69

INTRODUCTORY SECTION



EMPLOYEES' RETIREMENT SYSTEM

The Maryland-National Capital Park and Planning Commission

6611 Kenilworth Avenue, Suite 100

Riverdale, Maryland 20737

(301) 454-1415 - Telephone

(301) 454-1420 - Facsimile

Andrea L. Rose
Administrator

September 30, 2009

The Board of Trustees:

BOARD OF TRUSTEES

Chairman Samuel J. Parker, Jr.

Vice Chairman Joseph Alfandre

Khalid Afzal

Adrienne Jacobs

Patricia Colihan Barney

Richard H. Bucher, Ph.D.

Barbara A. Funk

Guy Jones

Elton F. King

Oscar S. Rodriguez

Al Warfield

The Maryland-National Capital Park and Planning Commission (“Commission”) Employees’ Retirement System (“ERS”) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009 is hereby submitted. The responsibility for the accuracy of the data and completeness and fairness of the presentation, including disclosures, rests with the ERS’ staff. We believe all data in the report is accurate in all material respects, and is reported in a manner designed to present fairly the financial position and results of the operation of the ERS. All disclosures necessary to enable the reader to gain an understanding of the ERS’ financial activities are included.

Management’s Discussion and Analysis immediately follows the independent auditor’s report and provides a narrative introduction with an overview of the basic financial statements. Management’s Discussion and Analysis complements this letter of transmittal and is suggested to be read in conjunction with this letter.

This CAFR has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB), and as prescribed by the Financial Accounting Standards Board (FASB) Statement 35. The accrual basis of accounting has been used to record assets, liabilities, additions and deductions. Revenues are recorded when earned, regardless of the date of collection, and expenses are recorded when incurred, regardless of when payment is made. The accounting firm of Clifton Gunderson, LLP was selected to conduct the ERS’ audit. I am pleased to advise, the auditors issued an unqualified opinion, the highest possible outcome of the audit process.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the ERS’ CAFR for the fiscal year ended June 30, 2008. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting and its attainment represents a significant accomplishment. We believe that our current CAFR continues to meet GFOA’s requirements.

The Public Pension Coordinating Council (PPCC) awards a Public Pension Standards Award to public pension systems that meet the professional standards for public retirement system management and administration as set forth by the PPCC. The award recognizes achievement of high professional standards in the areas of plan design and administration, benefits, actuarial valuations, financial reporting, investments and disclosures to members. The PPCC encourages all state and local governments to meet these standards. The ERS was awarded the *Public Pension Standards 2008 Award* for the fourth consecutive year.

Reporting Entity and Plan History

The ERS covers employees of the Commission, a body corporate of the State of Maryland, established by the Maryland General Assembly in 1927. The Commission is the bi-county agency empowered to acquire, develop, and administer a regional system of parks in the defined Metropolitan District, and to prepare and administer a general plan for the physical development of a defined Regional District for Montgomery and Prince George's Counties. The ERS was established as a single employer defined benefit pension plan effective July 1, 1972, in accordance with the Trust Agreement between the Commission and the Board of Trustees. Prior to that date, Commission employees were covered under Maryland's State Retirement System. Employees who were covered by the State Retirement System were given the option of remaining with that System or transferring to the ERS' Plan. Revisions to the Social Security tax structure and other fiscal considerations made it prudent to develop a new retirement plan, based on the principle of Social Security excess. Therefore, effective January 1, 1979, the Plan became the Maryland-National Capital Park and Planning Commission Employees' Retirement System, encompassing three defined benefit plans: Plan A, the original plan; Plan B, for non-police, integrated with Social Security; and Plan C, only for Park Police. Commission Park Police are not covered by Social Security. On July 1, 1990, a collectively bargained Plan D replaced Plan C, which was closed and all members transferred to the new Park Police Plan D. Effective July 1, 1993, again as a result of collective bargaining with the Park Police union, Plan D was closed to new employees, and Plan C was amended and reopened to provide benefits for Park Police Officers hired after July 1, 1993. Pursuant to a 2002 collective bargaining agreement, Plan D members were given a one-time election to transfer to Plan C on or before October 25, 2002.

Membership in the ERS is mandatory for all full-time career Merit System employees hired on or after January 1, 1979, and full-time career employees of the ERS hired on or after March 1, 1994. Effective January 1, 2009, membership is mandatory for all other full and part-time career Merit System employees, Appointed Officials, Commissioners, and employees/directors appointed by the Commission/Planning Board to other full-time positions exempted by the Merit System.

The administrative operations of the ERS are the responsibility of the Administrator and Staff employed by the Board. The Plan Document establishes all benefit provisions. The Commission reserves the right to amend the provisions of the ERS, consistent with the Trust Agreement, provided that no amendments may adversely affect the benefits that have accrued prior to the effective date of such amendment, except as may be legally required to continue to qualify the Plan under section 401(a) of the Internal Revenue Code, or any successor thereto of similar importance.

Benefits and Services Provided

The ERS provides normal and early retirement benefits, spouse and children survivor benefits, ordinary death benefits, and post retirement death benefits for members of the ERS. Disability retirement benefits were prospectively removed in August 1982, with income replacement provided to employees through a long-term disability (LTD) insurance program administered by the Commission. Members on LTD receive free credited service until their normal retirement date. Annual cost-of-living adjustments are provided for ERS annuitants. The ERS has a comprehensive membership education program which includes workshops for new hires and retirees and full-day seminars for mid-career and retirement eligible members. In accordance with the Uniform Management of Public Employees Retirement Systems Act, the ERS provides Annual Benefit Statements that project benefits at normal retirement; an Annual Report, which contains key financial and actuarial information; and a Summary Plan Description, which describes the provisions and benefits of the ERS. The ERS communicates with members via the LifeTimes Update, which is published monthly in the Commission's Update newsletter. To further communicate efforts, the ERS has a bulletin series, as

well as, branded fact sheets about ERS benefits. One-on-one counseling is available to all active members to discuss benefits and retirement options. Employees are encouraged to take advantage of the retirement counseling session, which is provided for all those retiring from the Commission. The session includes a review of retirement benefits, options and assistance is provided in completing the necessary paperwork in order to begin benefits. Information regarding the ERS can also be accessed via the Commission's Intranet. Members must be on the Commission's Local Area Network to access the ERS' information.

Investment Results

The continuing economic crisis resulted in losses for pension plans across the country, including the ERS. For the year ending June 30, 2009, the ERS fund returned -19.2% versus its policy benchmark of -18.6%. The ERS fund return was -5.0% for the three-years ended June 30, 2009 and -0.2% for the five-years ended June 30, 2009 less than the policy index which returned -3.7% and 0.8%, respectively. Diversification is important now more than ever during these market conditions.

Major Initiatives

The Board accelerated the Asset/Liability Study and determined that further diversification of the portfolio was required. To that end, the Board adopted a revised asset allocation in February 2009 which seeks to make the promised benefits more secure while lowering the cost of funding those benefits. Additional initiatives and accomplishments included:

- Renewing the Portfolio Monitoring and Securities Fraud Litigation Services with Coughlin Stoia Geller Rudman & Robbins
- Issuing a Request for Proposal for Fixed Income
- Amending the Plan Document to comply with the Internal Revenue Code and Pension Protection Act of 2006
- Adopting the FY2010 Operating Budget
- Participating in annual Ethics & Fiduciary Responsibility Training
- Establishing a separate Audit Committee
- Adopting an Emerging Manager Policy
- Engaging Eaton Vance Management and C.S. McKee, L.P. to manage two core fixed income portfolios
- Engaging Pugh Capital Management and Pyramis Global Advisors to manage two long duration fixed income portfolios
- Adopting a revised mortality table assumption for the annual actuarial valuation
- Relaxing the constraints within the Western Asset core portfolio to increase high yield

Financial Highlights

It is the responsibility of management to develop and maintain systems of internal controls, which are designed to provide assurances for the safeguarding of assets and the reliability of financial records.

The ERS' internal accounting controls accomplish these objectives. The Trust Agreement requires an annual accounting of the ERS' operation and activities and that the results of this analysis be reported to the Commission. The ERS' independent auditors' unqualified opinion is the highest possible result of the audit process.

The ERS' operating budget is adopted by the Board with final approval for administrative expenses made by the Commission. The ERS has consistently maintained its budget within the actuarial expense assumption of 1% of covered payroll.

The revenues necessary to finance retirement benefits are accumulated through employee and employer contributions, and income on investments. The Board establishes investment objectives and policies, determines appropriate asset allocation strategies, selects investment managers for appointment by the Commission, and evaluates investment performance. The ERS' investments are diversified, recognizing that a prudent policy preserves assets and maximizes earnings with appropriate risk, to provide asset growth consistent with long-term needs. This year's loss, including investment expense, was -\$119,444,868 compared with a loss of -\$55,309,537 for the prior year. Total contributions of \$19,826,076 compared with last year's \$15,082,969 reflect an increase of 31.4%. Total deductions increased by 8.0% from \$25,268,412 in 2008 to \$27,278,980 in 2009. Pension benefits and refunds account for \$25,920,285 and the remainder of \$1,358,695 was attributed to administrative expenses (see page 17).

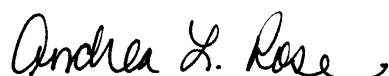
Funding Status

The ultimate test for a retirement system is the level of funding achieved. The better the level of funding, the larger the ratio of assets accumulated to pay liabilities and the greater the level of investment income potential. The Schedule of Funding Progress directly illustrates the financial stability of the ERS and presents a standardized measure of projected plan liabilities (see page 36). This measure, a disclosure required for public employee retirement plans by GASB, allows the reader to assess the funding status of the ERS on a going concern basis, and to assess progress made in accumulating sufficient assets to pay benefits when due. The measure is the actuarial present value of credited projected benefits and independent of the funding method used to determine contributions. An actuarial valuation performed as of July 1, 2008, indicated that the funded ratio of the actuarial value of assets to the actuarial accrued liability for benefits was 95.7%. This ratio does not reflect the current year's decrease in assets. As of July 1, 2008, the actuarial value of assets is \$633,699,751 and the actuarial accrued liability is \$662,224,634.

Acknowledgments

The compilation of this CAFR reflects combined efforts of the ERS' staff. Special recognition is extended to Sheila Joynes for her lead role; to Ann McCosby for development of required schedules and to Heather Brown for layout and design. Each member of the staff has my sincere appreciation for their contributions made throughout the years. This CAFR is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions, and for determining responsible stewardship for the assets contributed by the members of the Commission. I thank the Board, Staff, consultants and service providers who have worked so diligently to assure the successful operation of the ERS.

Respectfully Submitted,



Andrea L. Rose
Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maryland-National Capital
Park and Planning Commission
Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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.



President

Executive Director



Public Pension Coordinating Council
Public Pension Standards
2008 Award

Presented to

The Maryland-National Capital Park & Planning Commission
Employees' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

Board of Trustees

Samuel J. Parker, Jr.
Chairman
Term expires: 6/30/2010

Joseph Alfandre
Vice Chairman
Term expires: 6/30/2011

Khalid Afzal
Montgomery County Open Trustee
Term expires: 6/30/2012

Patricia Colihan Barney
Secretary-Treasurer
Ex-Officio

Richard H. Bucher, Ph.D.
Prince George's County Public Member
Term expires: 6/30/2011

Barbara A. Funk
Prince George's County Open Trustee
Term expires: 6/30/2012

Adrienne Jacobs
MCGEO Represented Trustee
Term expired: 6/30/2007

Oscar S. Rodriguez
Executive Director
Ex-Officio

Elton F. King
Montgomery County Public Member
Term expires: 6/30/2011

Alfred Warfield
Bi-County Open Trustee
Term expires: 6/30/2011

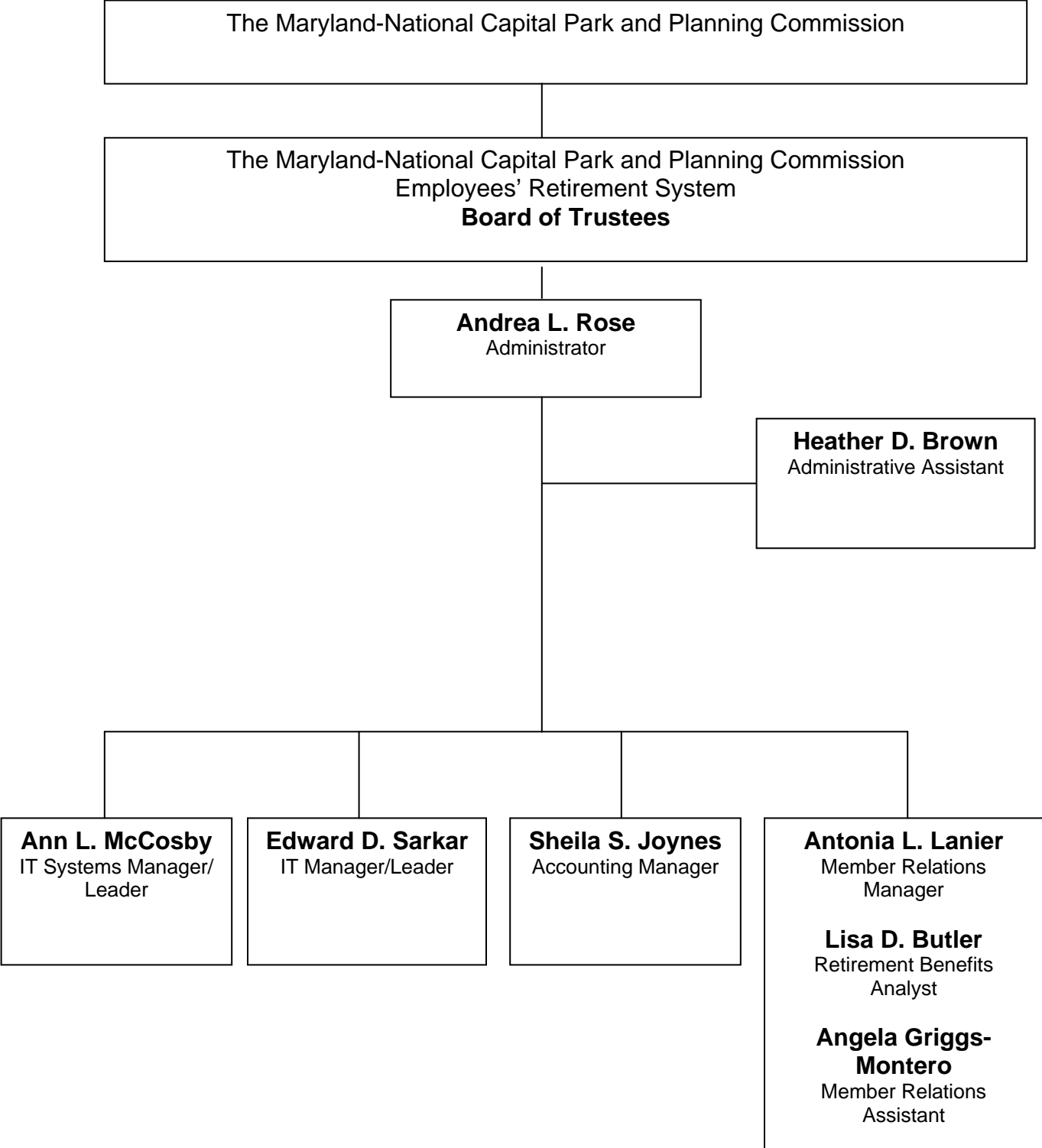
Detective Guy Jones
FOP Represented Trustee
Term expires: 6/30/2010

The Board consists of 11 appointed and elected members as adopted by the Commission on July 24, 2001:

- Two Commissioners (one each from Montgomery and Prince George's counties)
- The Commission's Executive Director, Ex-Officio
- The Commission's Secretary-Treasurer, Ex-Officio
- Three Open Trustees (one each from Montgomery and Prince George's counties and one from the Bi-County office, effective July 2003)
- Two Public Members (one each from Montgomery and Prince George's counties)
- Two Represented Trustees (one MCGEO Employee Representative and one Fraternal Order of Police Representative)

Trustees serve for three-year terms. Trustees elect a chairman and vice chairman to serve for a two-year term. The Commission appoints Commissioners and Public Members. Terms for the Secretary-Treasurer and Executive Director are concurrent with their tenure in office. Trustees for Prince George's, Montgomery, and Bi-County are selected by an election process from those eligible for selection as a trustee. The election is conducted by the ERS. The Represented Trustee for the Fraternal Order of Police (FOP) is selected pursuant to an internal election process established by the FOP. The Represented Trustee for the Municipal and County Government Employees' Organization (MCGEO) is selected by the Chief Executive Officer of MCGEO. Represented trustees continue in office until replaced by their successors. Generally, the Board meets on the first Tuesday of every month, except for August. Board meetings are open to all employees and members of the public. Members of the Board may be contacted in writing through the ERS. Since members of the Board change from time to time, their names will be published in Update (the Commission's monthly newsletter), the Annual Report and posted on the Intranet as the changes occur.

Organizational & Reporting Structure



Staff, Consultants & Professional Service Providers

Staff

Andrea L. Rose
Administrator

Heather D. Brown
Administrative Assistant

Member Relations

Antonia L. Lanier
Member Relations Manager

Lisa D. Butler
Retirement Benefits Analyst

Angela Griggs-Montero
Member Relations Assistant

Technical and Accounting Services

Sheila S. Joynes
Accounting Manager

Ann L. McCosby
IT Systems Manager/Leader

Edward D. Sarkar
IT Manager/Leader

Consultants & Professional Service Providers

Actuary
Aon Consulting

Auditor
Clifton Gunderson LLP

Banking
The Northern Trust Company
Bank of America

Investment Consultant
Wilshire Associates

Legal
M-NCPPC Legal Department
GROOM Law Group
Coughlin Stoia Geller Rudman &
Robbins, LLP

Transition Managers
Credit Suisse (USA) LLC
State Street Global Markets, LLC

Note: For the list of investment managers see page 42 and for their schedule of broker commissions see page 52.

Staff and Board members can be contacted at:
Employees' Retirement System
The Maryland-National Capital Park and Planning Commission
6611 Kenilworth Avenue, Suite 100
Riverdale, Maryland 20737
Telephone (301) 454-1415
Fax (301) 454-1413

Hours of Service
Monday-Friday
8 a.m. to 5 p.m.

FINANCIAL SECTION

A1

Independent Auditor's Report

The Board of Trustees
The Maryland-National Capital Park and
Planning Commission Employees' Retirement System

We have audited the accompanying statements of plan net assets of The Maryland-National Capital Park and Planning Commission Employees' Retirement System (the System), a blended component unit of the Maryland-National Capital Park and Planning Commission, as of June 30, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. 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. 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 plan net assets of the System as of June 30, 2009 and 2008, and the changes in the plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 17, and the required supplemental information on pages 36 and 37, are not required parts 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules on pages 38, 39 and 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory Section, Investment Section, Actuarial Section and Statistical Section 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 Introductory, Investment, Actuarial and Statistical Sections have not been subject 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
September 24, 2009



Management's Discussion & Analysis

This section of the Report provides readers with a narrative overview and analysis of the financial activities of the Maryland-National Capital Park and Planning Commission Employees' Retirement System ("ERS") for the fiscal years ended June 30, 2009, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with basic financial statements to enhance their understanding of the ERS' financial performance.

FINANCIAL HIGHLIGHTS

- The ERS' assets exceeded liabilities by \$451.3 million and \$578.2 million at June 30, 2009 and 2008, respectively. Of this amount, \$451.2 million and \$578.1 million may be used to meet the obligations of current and future retirees and beneficiaries. The remaining \$.1 million is invested in capital assets or prepaid expenses. During 2009 and 2008 total net assets held in trust for pension benefits decreased by \$126.9 million (21.9%) and \$65.5 million (10.2%), respectively due primarily to investment losses.
- The most recent actuarial valuation of the ERS reflects the funded ratio of 95.7% as of July 1, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Discussion & Analysis is intended to serve as an introduction to the ERS' basic financial statements. The basic financial statements contain two components: The ERS' Financial Statements, and the Notes to the Financial Statements. In addition to the basic financial statements, this report also contains a Schedule of Funding Progress and a Schedule of Employer Contributions, which are additional supplementary information required by the Governmental Accounting Standards Board.

The Statement of Plan Net Assets presents information on all of the ERS' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the ERS' financial position is improving or deteriorating.

The Statement of Changes in Plan Net Assets presents information showing how the ERS' net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, additions to and deductions from net assets are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. unrealized gains or losses on investments).

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Schedules of Funding Progress and of Employer Contributions present six-year historical trend information about the ERS. This information is intended to help the users assess the ERS' funding status on a going concern basis and assess the progress made in accumulating assets to pay benefits when due.

Management's Discussion & Analysis

FINANCIAL ANALYSIS OF THE SYSTEM

Net Assets and Changes in Net Assets: The following table reflects the ERS' net assets and changes in net assets as of and for the years ended June 30, 2009, 2008 and 2007 (in thousands).

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets			
Current assets	\$ 483,398	\$ 612,956	\$ 746,582
Other assets	<u>15</u>	<u>17</u>	<u>24</u>
Total assets	<u>483,413</u>	<u>612,973</u>	<u>746,606</u>
Liabilities			
Total liabilities	<u>32,147</u>	<u>34,809</u>	<u>102,948</u>
Net assets held in trust for pension benefits	<u>\$ 451,266</u>	<u>\$ 578,164</u>	<u>\$ 643,658</u>
	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Changes in net assets			
Total additions, net	\$ (99,619)	\$ (40,227)	\$ 104,975
Total deductions, net	<u>27,279</u>	<u>25,268</u>	<u>22,990</u>
(Decrease) increase in net assets	<u>\$ (126,898)</u>	<u>\$ (65,495)</u>	<u>\$ 81,985</u>

Current Assets

The largest component of net assets is the ERS' investments. At June 30, 2009, 2008 and 2007, cash and investments amounted to approximately \$482.0 million, \$610.1 million and \$744.6 million, respectively. The decrease in assets in 2009 and 2008 is primarily the result of net losses from investing activities versus the increase in assets in 2007 which resulted primarily from a net gain from investing activities. Total receivables of \$1.4 million and \$2.9 million represent accrued income at June 30, 2009 and 2008, respectively.

Liabilities

Liabilities are primarily comprised of amounts payable on securities lending transactions and investments payable. Securities lending liabilities amounted to approximately \$22.5 million, \$34.0 million and \$63.4 million at June 30, 2009, 2008 and 2007, respectively. These outstanding balances are offset with cash and investments being held as collateral on securities lending transactions. Investments payable represents purchases not settled by June 30 of each year. Investments payable were approximately \$9.0 million and \$38.6 million at June 30, 2009 and 2007, respectively. There were no investment payables reflected in the year ended June 30, 2008.

Additions

The primary sources of net additions for the ERS include member and employer contributions and investment income. The following table reflects the source and amount of additions/deductions during the fiscal years ended June 30, 2009, 2008 and 2007 (in millions):

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Employer contributions	\$ 14.9	\$ 10.6	\$ 9.8
Member contributions	4.9	4.5	4.4
Net investment (loss) income	<u>(119.4)</u>	<u>(55.3)</u>	<u>90.7</u>

This financial report is designed to provide an overview of the ERS. Questions concerning any of the information provided in this report should be addressed to Andrea L. Rose, Administrator, 6611 Kenilworth Avenue, Suite 100, Riverdale, Maryland 20737.

Statements of Plan Net Assets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
INVESTMENTS AT FAIR VALUE (note 4)		
Fixed income securities	\$ 126,922,128	\$ 149,662,828
International fixed income securities	26,625,065	40,253,069
Corporate stock	210,216,353	262,160,522
International corporate stock	57,811,003	87,429,403
Real estate	22,147,479	32,299,756
Short term investments	16,282,919	4,186,788
Securities lending short term collateral investment pool (note 4)	21,963,391	33,983,356
Total investment at fair value	<u>481,968,338</u>	<u>609,975,722</u>
CASH	<u>27,957</u>	<u>108,691</u>
RECEIVABLES		
Investments receivable	0	1,583,805
Accounts receivable-member contributions	246,518	225,992
Accrued income on investments	1,155,454	1,061,624
Total receivables	<u>1,401,972</u>	<u>2,871,421</u>
OTHER ASSETS		
Prepaid expenses	14,783	15,089
Equipment at cost, net of accumulated depreciation of \$203,420 and \$201,285	0	2,135
Total other assets	<u>14,783</u>	<u>17,224</u>
Total assets	<u>483,413,050</u>	<u>612,973,058</u>
LIABILITIES		
Investments payable	9,037,432	0
Accrued expenses	527,546	644,919
Refunds payable	44,789	181,012
Payable for securities lending collateral (note 4)	22,537,284	33,983,356
Total liabilities	<u>32,147,051</u>	<u>34,809,287</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ <u>451,265,999</u>	\$ <u>578,163,771</u>
(See schedule of funding progress at page 36)		

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

Statements of Changes in Plan Net Assets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ADDITIONS TO NET ASSETS		
Contributions (note 5)		
Employer	\$ 14,933,506	\$ 10,561,434
Employees	4,892,570	4,521,535
Total revenue	<u>19,826,076</u>	<u>15,082,969</u>
Investment income		
Interest	6,407,173	7,590,941
Dividends	51,299	977,430
Net depreciation in fair value of investments	(124,662,426)	(62,176,289)
Other	231,904	70,501
Less – investment advisory and management fees	<u>(1,577,950)</u>	<u>(1,977,012)</u>
Net loss from investing activities	<u>(119,550,000)</u>	<u>(55,514,429)</u>
Securities lending activity (note 4)		
Securities lending	355,078	2,167,456
Securities lending fees	<u>(249,946)</u>	<u>(1,962,564)</u>
Net income from securities lending activity	<u>105,132</u>	<u>204,892</u>
Net investment loss	<u>(119,444,868)</u>	<u>(55,309,537)</u>
Total additions - net	<u>(99,618,792)</u>	<u>(40,226,568)</u>
DEDUCTIONS FROM NET ASSETS		
Benefits and other payments		
Pension benefits	22,515,563	20,504,682
Disability benefits	83,131	80,866
Survivor and death benefits	3,072,008	3,050,245
Refunds of contributions	249,583	382,455
Administrative expenses (note 6)	<u>1,358,695</u>	<u>1,250,164</u>
Total deductions - net	<u>27,278,980</u>	<u>25,268,412</u>
DECREASE IN NET ASSETS	<u>(126,897,772)</u>	<u>(65,494,980)</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>578,163,771</u>	<u>643,658,751</u>
End of year	<u>\$ 451,265,999</u>	<u>\$ 578,163,771</u>

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

Notes to Financial Statements

1. Organization and Plan Description

The Maryland-National Capital Park and Planning Commission Employees' Retirement System ("ERS"), although a legally separate entity, is considered to be a blended component unit of The Maryland-National Capital Park and Planning Commission ("Commission"). Accordingly, the financial statements of the ERS are included as a pension trust fund in the Commission's basic financial statements.

The ERS' Trust Fund is a retirement benefit trust organized by the Commission and is a qualified retirement plan pursuant to, and with the meaning of Section 401(a) of the Internal Revenue Code of 1986.

The ERS consists of four contributory, single employer defined benefit pension plans sponsored by the Commission. The ERS provides retirement and survivor benefits, as well as annual cost-of-living adjustments for all retirees and beneficiaries of the ERS.

Commissioners, persons appointed by the Commission to full-time positions exempted from the Merit System, directors appointed by the Montgomery or Prince George's Planning Boards, all career full-time Merit System employees, all career part-time Merit System employees, and staff responsible for administering the ERS are eligible to participate in the ERS. Benefits fully vest after five years of service, with the exception of Commissioners and Appointed Officials who receive full and immediate vesting.

Two of the plans, Plan A and D are closed to new entrants, and two, Plan B and C are open. Plan B and Plan C are mandatory for new full-time career general and park police employees.

The Board of Trustees is responsible for the administration of the ERS and delegates the day-to-day operation to the Administrator. The assets of the ERS are invested with the objective of ensuring sufficient funds will be available for meeting benefit payments. The ERS is considered a single "pension plan" for purposes of financial reporting in accordance with accounting principles generally accepted in the United States of America, as no assets are legally restricted to the payment of certain benefits.

The following description of the ERS provides general information. Participants should refer to the respective Plan documents for more complete information.

General Employee Retirement. General employees may be members of Plans A or B. Plan A, the original plan effective July 1, 1972, is applicable to all employees who enrolled on a voluntary basis as of December 31, 1978, when membership was closed. Each year, during the month of March, general employees participating in Plan A may irrevocably elect to transfer their membership to Plan B. Plan A members of the Municipal and County Government Employees' Organization may also transfer during the month of September each year. Plan B became mandatory for all new full-time career general employees effective January 1, 1979, and ERS staff hired on or after March 1, 1994. Effective January 1, 2009 membership is mandatory for part-time Merit System employees; and Commissioners and Appointed Officials of the Commission. Plan B is integrated with Social Security. Under the terms of Plans A and B, the normal retirement date for participating general employees is the first day of the month coinciding with or immediately following the date on which a participant attains age 60 with at least 5 years of credited service, or upon completion of 30 years of credited service regardless of age.

Notes to Financial Statements

1. Organization and Plan Description (continued)

- **Park Police Retirement**. Park Police may be members of Plans C or D. Effective July 1, 1993, the Commission approved an amended Plan C. Previously, effective July 1, 1990, Plan D replaced Plan C, with all former Plan C members mandatorily transferred to Plan D. With the adoption of an amended Plan C all new full-time Park Police Officers' participation in the amended Plan C is mandatory. Park Police Officers employed on or before December 31, 1978, participating in Plan A, were given a grace period to transfer from Plan A to Plan D effective July 1, 1990. Eligible Park Police Officers who were not in Plan A or Plan C as of June 30, 1990, were provided an opportunity to participate in Plan D. On June 19, 2002, Plan C was enhanced as a result of a collective bargaining agreement adopted by the Commission. Beginning February 1, 2002 and ending October 25, 2002, Plan D participants were given the option to transfer to Plan C. Plan D was closed to new participants effective July 1, 1993. Effective April 5, 2005, a Plan A or B employee who transfers to Plan C will be required to pay either 100% of the difference in contributions between the plans or accept an actuarial deficiency at retirement.

The normal retirement date for Plan D members is the first day of the month coinciding with or immediately following the date on which the participant attains age 55 and has completed five years of credited service, or has completed 22 years of credited service, regardless of age. The normal retirement date for Plan C members is the first day of the month coinciding with or immediately following the date on which the participant attains age 55 and has completed five years of credited service, or has completed 25 years of credited service, regardless of age.

- **Benefits**. Benefit payments are determined by application of a benefit formula considering the average of an employee's annual base pay during the three consecutive years that produce the highest total earnings prior to retirement, and the number of years of credited service, up to 40 years for members of Plan A, 35 years for members of Plan B, 30 years for members of Plans C and 32 years for members of Plan D. Under certain conditions, participants may elect to take early retirement at a reduced benefit level. Joint and survivor options are also available under the plans.
- **Disability**. Prior to August 1, 1982, disability benefits were available under the plans. Effective August 1, 1982, applications for disability retirement benefits were discontinued. All members who were receiving disability benefits, or who applied for disability benefits prior to August 1, 1982, continue to be covered under the terms of Plans A, B, and C. All applications for disability benefits subsequent to August 1, 1982, are covered under the Commission's Long-Term Disability Insurance Plan, which is not part of the ERS.
- **Cost-of-Living Adjustment (COLA)**. On July 1 each year, retirement income for participants retired at least six months is adjusted for changes in the cost-of-living as determined by the Consumer Price Index-U (CPI). Such COLAs are provided at 100% of the change in the CPI up to 3%, plus half of the change in the CPI in excess of 3%, up to a 5% maximum COLA.

Notes to Financial Statements

1. Organization and Plan Description (continued)

- **Death Benefit.** Effective July 9, 1986, the ERS was amended to provide a \$10,000 post-retirement death benefit to beneficiaries of current and future retired members.
- **Sick Leave Integration.** Effective September 1, 1988, the ERS was amended to permit members to use up to a maximum of 301 days of earned and unused sick leave to meet the length of service requirements for retirement qualification.

2. Summary of Significant Accounting Policies

- **Basis of Accounting**

The financial statements of the ERS are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Employee contributions are recognized and established by the required contribution rates for active members of the plan. Employer contributions are recognized when due pursuant to formal commitments as recommended by the actuary and approved by the plan sponsor. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.
- **Use of Estimates**

Management of the ERS has made certain estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.
- **Investments**

The ERS' investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. The investments in short-term investment funds are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is accounted for at cost plus accrued interest, which approximates fair value. U.S. government obligations, corporate and foreign bonds and notes, and common and preferred stocks, are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales.

Investment expenses consist of investment managers' fees and those expenses directly related to the ERS' investment operations.

Notes to Financial Statements

3. Membership by Plan

As of July 1, 2008, membership in the ERS was as follows:

	<u>Plan A (General)</u>	<u>Plan A (Police)</u>	<u>Plan B</u>	<u>Plan C</u>	<u>Plan D</u>	<u>Total</u>
Retirees & beneficiaries receiving benefits	368	21	437	22	76	924
Terminated employees entitled to benefits but not yet receiving them	2	-	232	9	7	250
Active participants employer financed vested	<u>47</u>	<u>-</u>	<u>1,884</u>	<u>162</u>	<u>35</u>	<u>2,128</u>
Total membership	<u><u>417</u></u>	<u><u>21</u></u>	<u><u>2,553</u></u>	<u><u>193</u></u>	<u><u>118</u></u>	<u><u>3,302</u></u>

4. Cash, Investments and Securities Lending

Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

The amount of the ERS' total cash and cash equivalents at June 30, 2009, was \$16,310,876. Cash deposits in the bank account totaled \$27,957 that was insured and collateralized. At June 30, 2009, the ERS held \$16,282,919 of cash equivalents in its custodial investment accounts.

As of June 30, 2009, the ERS' cash equivalents were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 169,719
Uninsured and held by custodial bank not in the ERS' name	<u>85,569</u>
Total	<u><u>\$ 255,288</u></u>

Investments

The Board of Trustees ("Board") of the Trust Fund is authorized by the Trust Agreement dated July 26, 1972 and most recently amended September 16, 2009 to invest and reinvest the Trust Fund, as may be determined by the investment consultant selected by the Commission. The Board is authorized to formulate investment policies, develop investment manager guidelines and objectives, and approve the retention of qualified advisors and investment managers.

The Trust Fund shall be diversified across investment classes and among investment managers in order to achieve an optimal balance between risk and return. The Board established target allocations for the authorized investment classes as follows:

U.S. Stocks	35%
International Stocks	20%
U.S. Bonds - Core	15%
U.S. Bonds - High Yield	10%
U.S. Bonds - Long Duration	10%
U.S. Real Estate (Private)	5%
U.S. Real Assets (Private)	<u>5%</u>
Total	<u><u>100%</u></u>

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Trust Fund assets should be invested to obtain an appropriate long-term total return consistent with the overriding goal of limiting the risk of a large loss.

Each investment manager has a set of guidelines, which contain investment objectives, and risk control provisions, which are appropriate for each manager's mission. Investment managers have discretion within the constraints of these guidelines and are subject to regular review by the Board. The Trust Fund has guidelines, which apply broadly to each asset class as follows:

U.S. Equity

- U.S. Equity investment managers are limited to no more than 5% of the value of the portfolio in cash equivalents at any time.
- The U.S. Equity Composite should match the Russell 3000 Index in terms of capitalization and growth characteristics.
- 75% to 85% should be invested in "large capitalization stocks".
- 15% to 25% should be invested in "small capitalization stocks".

Non-U.S. Equity

- Cash equivalent exposure is limited to 5%.
- 85% to 100% should be invested in "developed markets".
- 0% to 15% should be invested in "emerging markets".

Fixed Income Guidelines

- The Fixed Income Composite is limited to 20% of its value in cash equivalents at any time.
- A single issuer cannot exceed 5% of the market value of the fixed income composite at any time.
- Duration of the fixed income composite should remain within +/- 1.5 years relative to the asset class benchmarks. The duration of the fixed income composite at June 30, 2009 was 4.21 years with the Merrill Lynch BB/B and the Barclays Aggregate at 4.32 and 4.19 years, respectively.
- Securities with a weighted-average life greater than 30 years are prohibited.
- The fixed income composite is expected to maintain an aggregate weighting of at least a single A.

Real Estate Guidelines

- Cash equivalent exposure is limited to 10%.
- The maximum allocation by geographic region and property type is limited to 150% of its weight in the index and a minimum of 50% of its weight in the index.
- No individual property investment is expected to exceed 7.5% of the real estate composite at any time.
- The valuation objective is to accurately estimate the net asset value on a daily basis. The Valuation Consultant (VC) obtains an independent third-party appraisal for each property at least every 12 months. Monthly, the VC provides a list of property values that is based on a portfolio overview, updated discounted cash flow models, and/or limited scope, restricted appraisals and any facts regarding any event that occurs (i.e. lease or sale) that could impact property value.

Unless the Board grants prior authorization, an investment manager may not:

- Purchase securities on margin.
- Sell uncovered call options or sell put options.
- Leverage the portfolio.
- Sell securities short.
- Purchase commingled funds, mutual funds, or common trusts.
- Own more than 10% of any class of securities of any one issuer.
- Purchase letter stock, private placements, or sell securities restricted in a similar manner, other than those provided by SEC Rule 144A.
- Invest in commodities, or any vehicle that would leverage the portfolio.

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Derivatives Policy Statement

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have commercial paper credit ratings of at least A1 or equivalent rating. The duration and other risk exposure limits specified in the managers' guidelines are expected to be satisfied on an ongoing basis. Investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures, to replicate the risk/return profile of an asset or asset class, and to tactically change country exposure. Derivative securities such as "plain vanilla" collateralized mortgage obligations (CMOs) and structured notes are allowed. CMOs which are not "plain vanilla" are restricted to 5% of a manager's portfolio. Any use of derivatives not listed above is prohibited without written approval of the Board.

The following uses of derivatives are prohibited:

- **Leverage.** Derivatives shall not be used to magnify exposure to an asset beyond that which would be allowed by the guidelines.
- **Unrelated Speculation.** Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by the manager's guidelines if created with non-derivative securities.

Investments	Fair Value 2009	Fair Value 2008
Common stock	\$ 267,164,652	\$ 349,062,430
Preferred stock	93,126	148,735
Convertible equity	248,096	378,760
Government bonds	5,463,374	2,908,958
Government agencies	4,468,827	6,043,899
Provincial bonds	320,430	177,422
Corporate bonds	46,563,219	43,432,160
Corporate convertible bonds	521,481	707,306
Government mortgage-backed securities	31,786,604	44,405,718
Commercial mortgage-backed	2,074,098	4,061,380
Asset backed securities	3,975,967	5,983,565
Non-government backed CMOs	5,853,606	14,242,725
Index linked government bonds	3,267,926	4,280,987
Fixed income mutual funds	49,773,143	63,671,776
Real estate	22,147,479	32,299,757
Short term bills and notes	0	1,018,995
Cash & cash equivalent derivative-options	(38,250)	(176,039)
Short term investment funds	16,064,476	2,840,127
Securities lending short term collateral investment pool	21,963,391	33,983,356
Cash	256,693	503,705
Total Investments	\$ 481,968,338	\$ 609,975,722

The ERS has investments that are subject to various risks. Among these risks are custodial credit risk, interest rate risk, credit risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either a) the counterparty or b) the counterparty's trust department or agent but not in the government's name. The ERS requires that all investments be clearly marked as to ownership and to the extent possible, shall be registered in the name of the ERS.

Of the ERS' \$482.0 million in investments at June 30, 2009, \$22.0 million were cash collateral reinvestment securities acquired by the custodian, whom is also the lending agent/counterparty. This is consistent with the ERS' securities lending agreement in place with the custodian.

The fair value of loaned securities collateralized by cash collateral as of June 30, 2009 and cash collateral received from borrowers as of June 30, 2008 are presented by type below:

	2009	2008
Global government	\$ 0	\$ 161,357
U.S. agencies	608,861	3,471,261
U.S. corporate fixed	10,409,209	11,168,154
U.S. equities	5,256,180	14,268,333
U.S. government fixed	5,689,141	4,914,251
Total	\$ 21,963,391	\$ 33,983,356

Interest Rate Risk

Each investment manager has duration targets and bands that control interest rate risk.

As of June 30, 2009, the ERS had the following fixed income investments and short term investments with the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity-Years</u>
Asset backed securities	\$ 3,975,967	20.055054
Commercial mortgage-backed	2,074,098	30.519345
Corporate bonds	46,563,219	12.966754
Corporate convertible bonds	521,481	18.222596
Government agencies	4,468,826	10.924959
Government bonds	5,463,374	11.668643
Government mortgage backed securities	31,786,604	27.574334
Guaranteed fixed income	232,276	2.948379
Index linked government bonds	3,267,926	15.144349
Provincial bonds	320,430	2.801364
Non-government backed CMOs	5,853,606	32.366886
Fixed income mutual funds	49,540,867	N/A
Short term investment funds	16,064,476	N/A
Total	\$ 170,133,150	18.288094

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Interest Rate Risk (continued)

As of June 30, 2008, the ERS had the following fixed income investments and short term investments with the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity-Years</u>
Asset backed securities	\$ 5,983,565	24.389641
Commercial mortgage-backed	4,061,380	31.372515
Corporate bonds	43,432,160	14.669319
Corporate convertible bonds	707,306	7.731863
Government agencies	6,043,899	10.103023
Government bonds	2,908,958	9.227851
Government mortgage backed securities	44,405,718	27.943031
Index linked government bonds	4,280,987	17.396865
Provincial bonds	177,422	4.920000
Non-government backed CMOs	14,242,725	31.475297
Fixed income mutual funds	63,671,776	N/A
Short term bills and notes	1,018,995	0.463000
Short term investment funds	2,840,127	N/A
Total	\$ 193,775,018	19.950637

Collateralized mortgage obligations (CMOs) are a type of mortgage-backed security that creates several pools of pass-through rates for different classes of bonds, called tranches. The tranches have their own risk characteristics with varying maturities. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. The repayments of principal and interest from the pass-through securities are used to retire the bonds in an established order of maturity. The ERS held \$5,853,606 and \$14,242,725 in CMOs at June 30, 2009 and 2008, respectively.

Asset-backed securities (ABS) are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Brokerage firms underwrite the securities and reoffer them to the public. The ERS held \$3,975,967 and \$5,983,565 in ABS at June 30, 2009 and 2008, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by a nationally recognized statistical rating agency such as Standard & Poor's Services. Individual manager guidelines require investment managers to follow certain controls, documentation and risk management procedures. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have commercial paper credit ratings of at least A1 or equivalent rating.

Individual investment manager guidelines include limitations on the percentage of securities below investment grade and various types of securities including derivatives. A Derivatives Policy Statement identifies and allows common derivative investments and strategies which are consistent with the Investment Policy Statement.

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Credit Risk (continued)

Credit Quality Ratings Summary as of June 30, 2009:

<u>Credit Quality Distribution for Services</u>		<u>% of Total Portfolio</u>
Agency	Government	7.635%
Agency	AAA	1.420%
Agency	A	0.067%
Agency	BBB	0.123%
Agency	BB	0.043%
Agency	C	0.000%
Agency	Not Rated	0.036%
Asset backed securities	AAA	0.479%
Asset backed securities	AA	0.021%
Asset backed securities	A	0.027%
Asset backed securities	BBB	0.157%
Asset backed securities	BB	0.037%
Asset backed securities	CCC	0.062%
Asset backed securities	Not Rated	0.042%
Commercial mortgage backed securities	AAA	0.309%
Commercial mortgage backed securities	Not Rated	0.121%
Non-government backed CMOs	AAA	0.867%
Non-government backed CMOs	AA	0.004%
Non-government backed CMOs	A	0.050%
Non-government backed CMOs	BBB	0.055%
Non-government backed CMOs	BB	0.033%
Non-government backed CMOs	B	0.089%
Non-government backed CMOs	CCC	0.061%
Non-government backed CMOs	D	0.006%
Non-government backed CMOs	Not Rated	0.048%
Corporate bonds	AAA	0.105%
Corporate bonds	AA	0.534%
Corporate bonds	A	2.375%
Corporate bonds	BBB	2.537%
Corporate bonds	BB	1.969%
Corporate bonds	B	1.536%
Corporate bonds	CCC	0.435%
Corporate bonds	CC	0.063%
Corporate bonds	D	0.012%
Corporate bonds	Not Rated	0.084%
Corporate convertible bonds	A	0.001%
Corporate convertible bonds	BB	0.050%
Corporate convertible bonds	B	0.045%
Corporate convertible bonds	Not Rated	0.012%
Provincial bonds	AAA	0.066%
Provincial bonds	AA	0.000%
Government mortgage backed	AAA	0.047%
Other fixed income	Not Rated	10.249%
Short term bills and notes	AAA	0.000%
Short term investment fund	Not Rated	3.329%

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Credit Risk (continued)

Credit Quality Ratings Summary as of June 30, 2008:

Credit Quality Distribution for Services	% of Total Portfolio	
Agency	Government	7.675%
Agency	AAA	1.431%
Agency	A	0.157%
Agency	BBB	0.184%
Agency	BB	0.022%
Agency	B	0.014%
Agency	Not Rated	0.045%
Asset backed securities	AAA	0.723%
Asset backed securities	AA	0.068%
Asset backed securities	A	0.013%
Asset backed securities	BBB	0.064%
Asset backed securities	BB	0.051%
Asset backed securities	Not Rated	0.061%
Commercial mortgage backed securities	AAA	0.508%
Commercial mortgage backed securities	Not Rated	0.158%
Non-government backed CMOs	AAA	2.013%
Non-government backed CMOs	AA	0.005%
Non-government backed CMOs	B	0.015%
Non-government backed CMOs	Not Rated	0.303%
Corporate bonds	AAA	0.163%
Corporate bonds	AA	0.388%
Corporate bonds	A	0.905%
Corporate bonds	BBB	1.728%
Corporate bonds	BB	1.551%
Corporate bonds	B	1.366%
Corporate bonds	CCC	0.445%
Corporate bonds	Not Rated	0.691%
Provincial bonds	AAA	0.029%
Provincial bonds	AA	0.000%
Government mortgage backed	AAA	0.090%
Other fixed income	Not Rated	10.422%
Short term bills and notes	AAA	0.000%
Short term investment fund	Not Rated	0.466%

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

Foreign Currency Risk

The ERS does not have a policy for foreign currency risk. Foreign currency is intentionally unhedged.

The ERS' exposure to foreign currency risk at June 30, 2009, was as follows:

<u>Investment Type</u>	<u>Currency</u>	<u>Fair Value</u>
Government bonds	Brazilian Real	\$ 593,205
Government bonds	Canadian Dollar	543,227
Government bonds	Colombian Peso	155,775
Government bonds	New Zealand Dollar	48,800
Government agencies	Canadian Dollar	120,022
Government agencies	Indonesian Rupiah	137,748
Provincial bonds	Australian Dollar	143,607
Corporate bonds	Canadian Dollar	7,943
Corporate bonds	Mexican Peso	110,628
Corporate bonds	New Zealand Dollar	69,865
Cash	Iceland Krona	3,424
Total		<u>\$ 1,934,244</u>

The ERS' exposure to foreign currency risk at June 30, 2008, was as follows:

<u>Investment Type</u>	<u>Currency</u>	<u>Fair Value</u>
Government bonds	Brazilian Real	\$ 1,120,112
Government bonds	Colombian Peso	149,574
Government bonds	South African Rand	108,365
Government bonds	Mexican Peso	747,315
Government agencies	South African Rand	111,670
Corporate bonds	Indonesian Rupiah	476,810
Corporate bonds	Malaysian Ringgit	315,838
Corporate bonds	New Zealand Dollar	81,933
Corporate bonds	Canadian Dollars	7,557
Corporate bonds	Mexican Peso	169,036
Corporate bonds	South Korean Won	439,750
Cash	Argentine Peso	3,298
Total		<u>\$ 3,731,258</u>

Note: These schedules do not agree with the total international obligations and international equities as listed on the Statements of Plan Net Assets due to international obligations valued in U.S. dollars but classified as international.

Cash Received as Securities Lending Collateral

The ERS accounts for securities lending transactions in accordance with GASB No. 28 Accounting and Financial Reporting for Securities Lending Transactions, which established standards of accounting and financial reporting for securities lending transactions.

The Board of Trustees authorized the lending of fixed income securities, which activity is managed by the custodian bank. There were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent as of June 30, 2009 except on September 15,

Notes to Financial Statements

4. Cash, Investments and Securities Lending (continued)

2008, Lehman Brothers International Europe (LBIE) and on September 18, 2008, Lehman Brothers Inc. (LBI) were called into default on obligations under the terms of one or more of the Securities Borrowing Agreements. All clients were compensated for any security that was not returned from loan in accordance with the contractual obligations. Due to the nature of the program's collateralization of loans at a minimum of 102% of market value plus accrued interest, management of the ERS believes that there is no credit risk exposure, since the ERS owes the borrower more than the borrower owes the ERS.

Securities are loaned against collateral that may include cash, U.S. government securities, and irrevocable letters of credit. U.S. government securities are loaned against collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. government securities are loaned against collateral valued at 105% of the market value of the securities plus any accrued interest. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Consequently, the non-cash collateral has not been reported as an asset or liability on the Statement of Plan Net Assets. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans were approximately 64 days in 2009 and 96 days in 2008.

Cash open collateral is invested in a short term investment pool, which had an average weighted maturity of 15 days in 2009 and 36 days in 2008. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. There are no dividends or coupon payments owing on the securities lent.

The custodian bank's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Loss indemnification is provided when securities are not returned due to the insolvency of a borrower and the trustee bank fails to fulfill its contractual responsibilities relating to the lending of those securities to that borrower.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2009:

<u>Securities Lent</u>	<u>Fair Value</u>	<u>Cash Collateral Received*</u>	<u>Noncash Collateral Value*</u>
Fixed income securities	\$ 16,707,211	\$ 17,124,625	\$ 0
Domestic equities	5,256,180	5,412,659	0
Total	\$ 21,963,391	\$ 22,537,284	\$ 0

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2008:

<u>Securities Lent</u>	<u>Fair Value</u>	<u>Cash Collateral Received*</u>	<u>Noncash Collateral Value*</u>
Fixed income securities	\$ 19,232,155	\$ 19,715,024	\$ 254,770
Domestic equities	13,860,359	14,268,332	4,179
Total	\$ 33,092,514	\$ 33,983,356	\$ 258,949

*The securities collateral value is based on the ERS' pro rata share of the value of the securities collateral maintained at The Northern Trust Bank on the program wide collateralization levels.

Notes to Financial Statements

5. Contributions Required and Contributions Made

The ERS' funding policy provides for actuarially determined periodic contributions at level rates, for individual employees, so that sufficient assets will be available to pay benefits when due. The rate for the Commission's employee group as a whole is expected to remain level as a percentage of annual covered payroll. The contribution rate is based on current service cost plus amortization of the unfunded actuarial accrued liability. Effective July 1, 2007, the new methodology amortizes the unfunded actuarial accrued liability as of July 1, 2005 in equal payments to January 1, 2016 and amortizes subsequent changes in the unfunded actuarial accrued liability in equal payments over 15 years. The significant actuarial assumptions used to compute the contribution requirement are the same as those used to compute the actuarial present value of accumulated plan benefits.

The total contributions to the ERS for 2009 and 2008 of \$19,826,076 and \$15,082,969, respectively, were made pursuant to actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2007.

In 2009, the Commission contributed \$13,983,669 (11.4% of covered payroll of \$122,825,271) plus an additional amount of \$949,837 for a retirement incentive program offered by the Commission. The employees contributed \$4,892,570 (4.0% of covered payroll). In 2008, the Commission contributed \$10,561,434 (9.64% of covered payroll of \$109,579,279) and employees contributed \$4,521,535 (4.1% of covered payroll).

Employees participating in Plan A contribute 6% of their base pay. Park Police participating in Plans C and D contribute 8% and 7%, respectively, of their base pay. Employees participating in Plan B contribute 3% of their base pay up to the Social Security covered wage base and 6% thereafter.

Upon termination of employment, a participant may elect to receive a refund of contributions, or if he/she has as least five years of service, retirement benefits upon attaining Normal Retirement Date. All participants receive credited interest on contributions at the annual rate of 4.5%.

The Commission has agreed to make contributions to the ERS sufficient to provide the ERS with assets for payment of pension benefits to participants. Although the Commission has not expressed any intent to terminate the Plans, it may do so at any time. In the event that the Plans are terminated, beneficiaries receiving benefits at the date of termination shall be entitled to an allocation of the remaining assets based upon the relationship of each individual's actuarial reserve to total actuarial reserves, the balance to be allocated (pro rata) to the remaining members or beneficiaries.

6. Administrative Expenses

The ERS' Board of Trustees employs an internal staff to perform all accounting and administrative services. Administrative expenses are primarily comprised of salaries and related costs, professional fees, and office expenses. In accordance with a Trust Agreement and Memorandum of Understanding between the ERS and the Commission, the administrative expenses are determined by the ERS and paid from the ERS' Trust Fund within the limits of the budget approved by the Commission. The cost of such services for the years ended June 30, 2009 and 2008 was \$1,358,695 and \$1,250,164, respectively.

The liability for accrued leave as of June 30, 2009 and 2008, was \$134,578 and \$113,431, respectively, and has been included in accrued expenses in the accompanying financial statements.

Notes to Financial Statements

6. Administrative Expenses (continued)

Administrative expenses charged to the ERS by the Commission for 2009 were: computer services of \$44,200, legal of \$57,400, rent of \$89,600, postage of \$11,069, and copier leasing costs of \$7,644. In 2008 the expenses were: computer services of \$41,400, legal of \$53,600, rent of \$71,000, postage of \$12,168, and copier leasing costs of \$7,644.

7. Federal Income Taxes

The ERS obtained its latest determination letter on July 31, 2003, in which the Internal Revenue Service stated that the ERS, as amended, is in compliance with the applicable requirements of the Internal Revenue Code and the related trust is tax exempt.

8. Funded Status of Plan

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of the most recent actuarial valuation date, July 1, 2008, the plan had the following funding status:

(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) – (1)	Funded Ratio % (1)/(2)	Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (5)
\$ 633,699,751	\$ 662,224,634	\$ 28,524,883	95.7%	\$ 132,240,949	21.6%

9. Actuarial Cost Method

The actuarial cost method utilized to determine contributions to the Plan for the actuarial valuation date of July 1, 2008 is the Entry-Age Normal Cost Method. The method used to determine the actuarial value of assets is five-year smoothing.

The ERS changed the amortization of the unfunded actuarial accrued liability. Effective July 1, 2007, the new methodology amortizes the unfunded actuarial accrued liability as of July 1, 2005 in equal payments to January 1, 2016 and amortizes subsequent changes in the unfunded actuarial accrued liability over 15 years.

The more significant actuarial assumptions underlying the actuarial computations for the valuation effective July 1, 2008 are as follows:

Interest	7.5% compounded annually
Salary Increases	4.0% per year plus additional merit increases
Mortality	1994 Uninsured Pensioners Mortality Table

10. Retirement Contributions for Employees of the ERS

Effective March 1, 1994, new employees of the ERS are required to participate in the ERS. Those employees remaining in the Board established 401(a) Defined Contribution Plan receive an ERS contribution at the rate of 8% of base pay, and the employee contribution is at the rate of 6% of base pay.

Notes to Financial Statements

10. Retirement Contributions for Employees of the System (continued)

Upon termination of employment, the amount accumulated in the 401(a) Plan shall be made available to the employee or designee, in accordance with the policies and procedures of the 401(a) Defined Contribution Plan and in compliance with IRS regulations. The payroll for employees covered by the ERS 401(a) Defined Contribution Plan for the year ended June 30, 2009, was \$231,532 and the total payroll was \$710,439. Current participation is comprised of two employees who are immediately vested. The ERS' contribution to the 401(a) Plans was \$17,966 (2.5% of covered payroll) and \$15,138 (2.3% of covered payroll), respectively, for the years ended June 30, 2009 and 2008. The payroll for employees covered by the ERS 401(a) Defined Contribution Plan for the year ended June 30, 2008, was \$217,710 and the total payroll was \$665,682. Current participation is comprised of two employees who are immediately vested. The ERS' contribution to the 401(a) Plans was \$15,138 (2.3% of covered payroll) and \$18,960 (3.0% of covered payroll), respectively, for the years ended June 30, 2008 and 2007.

The payroll for employees covered by the System 401(a) Defined Contribution Plan for the year ended June 30, 2007, was \$268,273 and the total payroll was \$622,506. Current participation is comprised of two employees who are immediately vested. The System's contribution to the 401(a) Plans was \$18,960 (3.0% of covered payroll) and \$19,866 (3.4% of covered payroll), respectively, for the years ended June 30, 2007 and 2006.

In addition, employees are eligible to participate in a Section 457 Deferred Compensation Plan. Participation is voluntary, and the ERS does not contribute to the 457 Plan. Upon termination of employment, the amount accumulated in the 457 Plan shall be made available to the employee or designee, in accordance with the policies and procedures of the 457 Plan and in compliance with IRS regulations. ERS employees electing to participate, do so in the sponsor's Section 457 deferred compensation plan. The contributions made to this plan are held in trust for the exclusive benefit of participants and their beneficiaries.

11. Other Post-employment Benefits (OPEB)

Plan Description - In addition to the pension benefits provided for the ERS, the Commission provides post-retirement health care benefits under a multi-employer cost sharing plan, in accordance with Commission approval, to all full-time and part-time career employees of the ERS who have been insured under any Commission-sponsored group medical plan during the three years immediately preceding the date of retirement or ability to prove similar coverage in another plan immediately prior to retirement. Currently 4 ERS retirees are participating in the Commission's medical plans. The Commission contributes 85 percent of the amount of medical, prescription drug, and dental insurance rates and 80 percent of vision benefit rates. The ERS contributes the same percentages for its full-time and part-time employees and retiree benefits levels are established annually by resolution of the Commission. Detailed information of the plan may be accessed via the Commission's CAFR.

Notes to Financial Statements

Funding Policy - The Commission and plan sponsor of the ERS implemented Statement 45-Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB) for the fiscal year ending June 30, 2008. The ERS is a participant in the multi-employer cost sharing plan as it relates to OPEB and in 2008, the first year of implementation, \$18,545 was the initial accrual. For the year ending June 30, 2009 the Commission estimated the OPEB expense for the ERS to be \$9,923 and this amount has been recorded. Questions concerning the OPEB information may be addressed to the Department of Finance, Office of the Secretary-Treasurer, The Maryland-National Capital Park and Planning Commission, 6611 Kenilworth Avenue, Suite 300, Riverdale, Maryland 20737 or via the Commission's website, <http://www.mncppc.org> (See Budget/CAFR).

12. Risk Management

The ERS is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ERS addresses these risks by purchasing workers' compensation (Maryland state mandatory limits) insurance, unemployment insurance, fiduciary liability, theft, and business owners insurance. The ERS did not pay any claims settlements in excess of insurance coverage in 2009 or 2008 nor was any insurance coverage reduced in 2009 or 2008. The ERS' employees have various options in their selection of health insurance benefits that are offered through the Commission's self-insurance program. The Commission self-insures the following medical plans: a health maintenance organization (HMO), an exclusive provider organization (EPO), a point of service (POS) as well as the prescription drug plan. All other group health insurance plans are fully insured including a dental plan and a vision plan with three coverage options.

13. Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets ("GASB 51" or the "Statement"), which establishes guidance specific to the recognition, and disclosure in the statement of net assets of those intangible assets of the ERS that are considered identifiable. This Statement further establishes a specified-conditions approach to recognizing intangible assets that are internally generated by the ERS as well as specific guidance related to amortization and useful life of intangible assets. The ERS' intangible assets are in scope of GASB 51. This Statement is effective for financial statements for periods beginning after June 15, 2009. The ERS is currently assessing the full impact of GASB 51 on future financial reporting.

The Governmental Accounting Standards Board (GASB) issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments ("GASB 53" or the "Statement"), which establishes a comprehensive framework for measurement, recognition, and disclosure of derivative transactions in order to enhance the usefulness and comparability of reported derivative instrument activity. The ERS' derivative instruments are in scope of GASB 53. This Statement is effective for financial statements for periods beginning after June 15, 2009. The ERS is currently assessing the full impact of GASB 53 on future financial reporting.

Required Supplementary Information Schedule of Funding Progress (Unaudited)

Six-year historical trend information about the ERS is presented herewith as required supplementary information. This information is intended to help users assess the ERS' 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.

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) – (1)	Funded Ratio % (1)/(2)	Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (5)
2003	\$ 506,098,931	\$ 434,485,148	\$ (71,613,783)	116.5%	\$ 99,788,705	(71.8)%
2004	507,413,323	469,344,285	(38,069,038)	108.1%	101,881,882	(37.4)%
2005	521,369,236	507,393,109	(13,976,127)	102.8%	106,058,394	(13.2)%
2006	552,432,436	544,748,263	(7,684,173)	101.4%	109,579,279	(7.0)%
2007	600,285,246	615,588,955	15,303,709	97.5%	122,825,271	12.5%
2008	633,699,751	662,224,634	28,524,883	95.7%	132,240,949	21.6%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides 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. Generally, the greater this percentage is the stronger the system. Trends in the unfunded actuarial accrued liability (or excess of) and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability 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. Generally, the smaller this percentage is the stronger the system.

Required Supplementary Information Schedule of Employer Contributions (Unaudited)

Employer Contributions		
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	\$ 1,202,785	100%
2005	5,051,639	100%
2006	8,337,228	100%
2007	9,824,590	100%
2008	10,561,434	100%
2009 ¹	13,983,669	100%

¹ An additional amount of \$949,837 for a retirement incentive program offered by the Commission made the overall Employer Contribution for 2009 equal to \$14,933,506.

Note to Required Supplementary Information

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the date indicated. Additional information as of the most recent actuarial valuation follows:

Actuarial Valuation Date	Actuarial Cost Method	Remaining Amortization Period	Amortization Method^(A)	Asset Valuation Method^(B)	Investment Rate of Return	Projected Salary Increases	Post- Retirement Benefit Increase^(C)
07/01/08	Entry age Normal	9	Open	5 year smoothing	7.5%	4.0% plus variable merit increases	3.0%

(A) The ERS changed the methodology for amortization of the unfunded actuarial accrued liability. Effective July 1, 2007, the new methodology amortizes the unfunded actuarial accrued liability as of July 1, 2005 in equal payments to January 1, 2016 and amortizes subsequent changes in the unfunded actuarial accrued liability over 15 years.

(B) As a result of using a five-year asset smoothing method to determine the actuarial value of plan assets, the investment performance on the actuarial value of assets for the year ended June 30, 2008 was 7.10%, which was less than the 7.5% return assumption. The market value of assets achieved a -8.85% return for the year ended June 30, 2008. The total actuarial value of assets as of July 1, 2008 is \$633 million compared to the market value of \$578 million. The actuarial value is higher than the market value due to a significant investment loss in 2007-2008 on the market value of assets.

(C) Cost-of-living adjustments (COLA) for the Plans are based on 100% of the change in the CPI up to 3%, plus half of the change in the CPI in excess of 3%, up to a 5% maximum COLA.

Supplementary Schedule
 Schedule of Administrative Expenses
 Fiscal Years Ended June 30

	<u>2009</u>	<u>2008</u>
Personnel services		
Salaries and wages	\$ 662,424	\$ 618,112
Social security contributions	47,567	44,882
Retirement contributions	60,786	48,548
Insurance contributions	88,042	83,280
Other employee benefits	35,769	36,027
Other post employment benefits	9,923	18,545
Unemployment compensation	448	448
Total personnel services	<u>904,959</u>	<u>849,842</u>
Professional and contractual services		
Actuarial	63,974	84,263
Auditing	25,000	21,096
Legal	85,309	58,849
Computer services	44,200	41,400
Other contractual services	2,615	2,745
Total professional and contractual services	<u>221,098</u>	<u>208,353</u>
Communication costs		
Printing	4,593	3,980
Telephone	1,423	2,262
Postage	11,069	12,168
Travel, conference and meetings	23,241	22,391
Advertising	981	5,174
Total communication costs	<u>41,307</u>	<u>45,975</u>
Other services and charges		
Office space rental	89,600	71,000
Equipment leasing	7,644	7,644
Furniture and equipment	33,150	7,489
Supplies	4,498	4,167
Maintenance	21,595	22,749
Bonding and insurance	25,811	22,880
Dues and subscriptions	2,919	1,951
Other services	3,979	1,179
Total other services and charges	<u>189,196</u>	<u>139,059</u>
Depreciation	<u>2,135</u>	<u>6,935</u>
Total	<u>\$ 1,358,695</u>	<u>\$ 1,250,164</u>

Supplementary Schedule
 Schedule of Investment Expenses
 Fiscal Years Ended June 30

	<u>2009</u>	<u>2008</u>
Investment managers		
Fixed income managers	\$ 379,002	\$ 458,553
Equity managers	803,411	1,071,333
Total investment managers' fees	<u>1,182,413</u>	<u>1,529,886</u>
Other investment service fees		
Custodian fees	217,537	277,626
Investment consulting fees	178,000	169,500
Securities lending fees	249,946	1,962,564
Total other investment service fees	<u>645,483</u>	<u>2,409,690</u>
Total	<u>\$ 1,827,896</u>	<u>\$ 3,939,576</u>

Supplementary Schedule
Schedule of Payments to Consultants
Fiscal Years Ended June 30

<u>Firm Name</u>	<u>Nature of Service</u>	<u>2009</u>	<u>2008</u>
Clifton Gunderson, LLP	Auditor	\$ 25,000	\$ 21,096
Wilshire Consulting Group	Investment Consultant	178,000	169,500
Buck Consultants	Actuary	0	84,263
AON Consultants	Actuary	63,974	0
GROOM Law Group	Legal	27,909	5,249
The Maryland-National Capital Park and Planning Commission Legal Department	Legal	57,400	53,600
The Maryland-National Capital Park and Planning Commission Finance Department	Computer Services	44,200	41,400
Total		<u>\$ 396,483</u>	<u>\$ 375,108</u>

INVESTMENT SECTION

Investment Manager Directory

EQUITY MANAGERS

Artisan Funds
Barclays Global Investors
J.P. Morgan
Ranger Capital
RhumbLine Advisors

FIXED INCOME MANAGERS

Goldman Sachs Asset Management
Loomis Sayles & Company
Western Asset Management
W. R. Huff Asset Management¹

INTERNATIONAL MANAGERS

AllianceBernstein
Capital Guardian Trust

REAL ESTATE MANAGER

Principal Global Investors

¹ Maintains Adelfphia and Century securities only.

Investment Consultant's Report

By Wilshire Associates

To: The Maryland-National Capital Park and Planning Commission
Employees' Retirement System Board of Trustees
Andrea Rose

From: Marc E. Friedberg

Date: August 21, 2009

Subject: Annual Financial & Actuarial Disclosure

Overview

The overall goal of Maryland-National Capital Park and Planning Commission Employees' Retirement System (ERS) is to provide benefits, as anticipated under the ERS governing plan document, to its participants and their beneficiaries through a carefully planned and executed investment program. Through this program, the ERS seeks to produce a return on investment commensurate with levels of liquidity and investment risk that are prudent and reasonable given the financial status of the ERS and the prevailing capital market conditions. While the ERS recognizes the importance of the preservation of capital, it also recognizes the critical importance of a reasonable investment return in meeting the long-term financial requirements of the ERS. It adheres to the theory of capital market pricing that maintains that varying degrees of investment risk should be rewarded with compensating returns. Consequently, prudent risk-taking is both necessary and justifiable.

The asset allocation policy is based on data and calculations resulting from the Actuarial Valuation conducted by Aon Consultants and the subsequent Asset/Liability study conducted by the investment consultant, Wilshire Associates, presented February 3, 2009.

The following asset allocation policy was adopted in first quarter 2009 following the Asset/Liability study. The implementation of the asset allocation policy is planned to be implemented gradually over time, with the new policy anticipated to be fully funded by March 31, 2010.

<u>Asset Class</u>	<u>Target %</u>	<u>Range %</u>
U.S. Stocks	35	30-40
International Stocks	20	15-25
U.S. Bonds - Core	15	10-20
U.S. Bonds - High Yield	10	5-15
U.S. Bonds - Long Duration	10	5-15
U.S. Real Estate (Private)	5	0-10
U.S. Real Assets (Private)	5	0-10

Outline of Investment Policies

The policies and procedures of the investment program guide its implementation and outline the specific responsibilities of the ERS.

Therefore, it is the policy of the ERS to:

1. Base the investment of the assets of the ERS on a financial plan that will consider:
 - a. The financial condition of the ERS
 - b. The expected long-term capital market outlook
 - c. The ERS' risk tolerance
 - d. Future changes of active and retired participants
 - e. Projected inflation and the rate of salary increase
 - f. Cash flow requirements
 - g. Targeted funding level as a percentage of the actuarial funding target

In developing its financial plan, the board has relied on the ERS' investment consultant, as one of the ERS' expert fiduciaries, to advise the board as to the long-term capital outlook and the board's options available to meet its investment objectives in light of that investment outlook. The investment consultant has advised the board as to the potential impact on the funding level of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected liability structure of the ERS. Based on this advice, the board has adopted an overall investment performance goal commensurate with the level of risk necessary to reach those goals.

2. Based on the financial plan and the advice of the investment consultant, the board shall determine the specific allocation of the investments among the various asset classes considered prudent given the ERS' liability structure. The long-term asset allocation shall be expressed in terms of a target and ranges for each asset class to provide sufficient flexibility to take advantage of short-term market opportunities as they may occur. Allocation shall be sufficiently diversified to maintain a prudent level of risk, as determined by the board, based on the investment consultant's expert opinion and projections that utilize reasonable, generally accepted capital market assumptions to ensure the current asset mix has a high probability of achieving the long-term goals of the retirement program.
3. In accordance with the asset allocation guidelines so adopted, the ERS' investment consultant shall advise and recommend to the board external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation. Based on these recommendations, the board will select the investment advisors that it deems most capable of carrying out the ERS' investment objectives. Upon the advice of the investment consultant, the board will set guidelines for these managers and regularly review their investment performance against stated objectives.

4. It is the responsibility of the board to administer the investments of the ERS at the lowest reasonable cost, taking into account the need to ensure quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs, and other administrative costs chargeable to the ERS.

The board of the ERS has general supervision of the investment and reinvestment of the funds of the ERS (the “Funds”). The specific investment-related duties of the board and, by delegation, of its investment consultant and advisors, include but are not limited to:

1. Selection and appointment of investment consultant and management professionals to assist the board to carry out its duties;
2. Establishment and implementation of investment policy with the advice and assistance of the board’s investment consultant and investment advisors;
3. Review and general supervision of the activities of the board’s investment consultant and investment advisors with regard to the ERS’ assets.

Investment Results

The investment results provided are supplied by the ERS’ consultant, Wilshire Associates. The returns are accurate and representative of the actual performance of the Plan. The following describes the performance measurement process that is used to arrive at the investment results:

Performance measurement reporting begins with the monthly collection of data from three sources:

- Banks - Wilshire obtains transaction and asset information from trustee banks electronically. These transactions and security holdings are then loaded into client files on Wilshire’s performance measurement system. We also track the availability and timeliness of statements sent by trustee banks. In addition, we have a dedicated team of data analysts responsible for maintaining our statement receipts, portfolio data feeds and loading asset portfolios into our system.
- Managers - We receive manager returns and detailed account statement information to use in the returns reconciliation process.
- External Data Vendors and Wilshire Data Sources - Wilshire’s centralized security data division collects extensive security level data from external data vendors, while our index department collects returns and portfolios on over 800 benchmarks. Our manager research department collects manager returns and portfolios for the construction of universes. This data is also loaded into our performance system.

Monthly rates of return are calculated by running each transaction file with time-weighted return software written by Wilshire. Wilshire’s calculation procedure is consistent with the recommendations of both the CFA Institute and the Bank Administrative Institute.

Tolerance ranges have been established for each asset class for return variance with the manager. When returns fall outside this tolerance range, we will review individual holdings, prices, accruals, cash flows and fees to determine where the discrepancies lie. If an error has been made, we will work with the parties to correct the error. If the difference is due to structural differences in the way the sources perform their calculations, we will include an explanation in the reconciliation. Reconciliation work is documented and can be provided to the client for their records.

Market Overview

Major Asset Class Returns for Periods Ending June 30, 2009

	QTR	YTD	1 yr	3 yr	5 yr	10yr
Equity						
Wilshire 5000 Index	16.8	4.5	-26.4	-8.1	-1.6	-1.3
Standard and Poor's 500	15.9	3.2	-26.2	-8.2	-2.2	-2.2
International Stock (MSCI EAFE)(USD)	25.4	8.0	-31.4	-8.0	2.3	1.2
Emerging Markets (MSCI EMF)(USD)	34.8	36.2	-27.8	3.3	15.1	9.0
Wilshire Real Estate Securities Index	31.9	-12.7	-45.7	-19.9	-3.4	5.2
Fixed Income						
Barclays Capital - Aggregate Bond Index	1.8	1.9	6.1	6.4	5.0	6.0
Credit Suisse - High Yield Index (\$)	20.2	27.2	-5.0	1.4	3.8	5.1
International Bonds (Citigroup Non-US)	5.4	-0.6	3.5	7.9	6.2	6.5
Treasury Bills (91 Day)	0.1	0.1	0.9	3.2	3.2	3.2
Consumer Price Index	1.4	2.6	-1.4	2.1	2.6	2.6

US Equity Market

The U.S. stock market added to its late-March rally to advance 16.79% in the second quarter of 2009, representing the first quarterly gain for the Wilshire 5000 Index since a 1.46% increase during the third quarter of 2007. Stocks have risen 38.33% since their recent low on March 9th, reducing the current market sell-off to -38.30% since the Wilshire 5000's high in October 2007. Each individual month within the quarter enjoyed a positive return, as June's narrow 0.35% gain represented the market's fourth consecutive positive month.

Small capitalization stocks took a leadership role during the quarter, reversing a trend of recent underperformance relative to larger stocks. The Wilshire Small Cap Index rose 26.32% versus a 15.57% advance for the Wilshire Large Cap Index. The Wilshire Small Cap Index surged 19.87% in April alone, marking its best single-month return in the index's 31 year history. Growth stocks continued to outpace value shares during the quarter, particularly in the small cap segment, with the Wilshire Small Growth Index up 28.92% against 23.64% for the Small Cap Value Index.

Financial stocks led all other sectors higher with a 26.96% quarterly advance, adding to an impressive rebound that began in March. The market's upward climb was broadbased as all sectors delivered positive results for the quarter. Even the Telecommunication Services segment, which lagged all other sectors, posted a respectable 4.26% return.

Since accelerating downward in September of 2008, the employment picture has continued to worsen through May 2009. The magnitude of job losses, however, has narrowed steadily since shedding nearly three-quarters of a million jobs in January 2009. A sustained extension of this recent trend to the upcoming June jobs data and into the second half of the year may serve as an early signal that the worst of the economic recession is behind us.

Domestic Fixed Income

After a short period of forecasted deflation at the turn of the year and despite the rising level of unemployment in the U.S., the TIPS breakdown spread for short term horizons less than 5 years have returned to forecasting inflation. Following increased inflation forecasts, longer maturity treasury yields rose, applying downward pressure on high grade fixed income securities quarter-to-date. Long Term U.S. Treasuries fell -7.14%, while TIPS returned 0.66%. During the quarter, U.S. Credit rallied to post a return of 8.81% with high yield returning a hefty 23.07%. Global Fixed Income reflected the general U.S. dollar depreciation providing a return premium to the unhedged Global Aggregate over the hedged series.

International Equity

MSCI AC World ex U.S. and Emerging Markets rallied out of the first quarter with strong gains in April and May and despite mild pullbacks in June set their largest quarterly gains since inception of 27.59% and 34.73%, respectively. Similarly, EAFE posted its largest quarterly gain since the end of the first quarter in 1986. MSCI Pacific and Japan, on the other hand, displayed more consistent but smaller monthly gains during the quarter. The U.S. dollar depreciated against most major currencies quarter to date, with the British Pound gaining 14.90%, the Euro gaining 5.65% and the Brazilian Real gaining 17.46%, helping to push USD returns to ACWI ex US, EAFE and Emerging Markets above Local Currency returns.

Portfolio Review

The net of investment fee performance as of 06/30/2009 of the Plan is detailed in the following table:

Maryland-NCPPC ERS	\$'000	Comp %	YTD %	1 Year %	3 Years %	5 Years %	Inception %
Total Fund (9/30/89)	452,119	100.0%	5.1	-19.2	-5.0	-0.2	6.7
<i>Policy Index/Blended Benchmark</i>			4.5	-18.6	-3.7	0.8	7.4
Domestic Equity Comp (9/30/89)	210,002	46.4%	4.5	-25.9	-9.2	-2.5	7.4
<i>S&P 500</i>			3.2	-26.2	-8.2	-2.2	7.3
<i>DJ Wilshire 5000</i>			4.5	-26.4	-8.1	-1.6	7.3
Fixed Income Comp (9/30/89)	159,971	35.4%	8.8	-0.8	2.8	2.9	6.5
<i>Barclays Aggregate</i>			1.9	6.1	6.4	5.0	7.1
<i>Policy Index</i>			6.5	2.7	5.7	4.8	7.0
International Equity Comp (3/31/95)	57,245	12.7%	8.8	-34.3	-9.7	1.1	5.0
<i>MSCI EAFE</i>			8.0	-31.4	-8.0	2.3	3.6
<i>Policy Index</i>			8.0	-31.4	-8.0	2.3	3.7
Real Estate Comp (9/30/07)	22,147	4.9%	-21.3	-31.4	--	--	-19.2
<i>NCREIF Property Index</i>			-12.2	-19.6	--	--	-9.0
Managed Cash	2,754	0.6%	--	--	--	--	--

The chart above shows the YTD, one, three, five and inception to date annualized returns for the total fund and each of the underlying composites. The chart shows the relative broad market benchmark for the underlying asset classes as well as the policy index which is a blend of benchmarks used currently and historically.

The recent underperformance of the total fund relative to its policy benchmark has also contributed to the underperformance over longer term periods for the period ending June 30, 2009. The portfolio's five year return of -0.19% underperforms the policy index of 0.80% by 99 bps. The distress in the credit and real estate market were the primary contributors to the funds underperformance over the past year.

The domestic equity composite lagged the broad-based U.S. equity market over 3 and 5 year time periods, yet outperforming both the DJ Wilshire 5000 and Standard & Poor's 500 since inception. The recent three and five year underperformance was attributable to two of the active managers in the portfolio, who have since been replaced. The U.S. Equity portfolio has undergone a restructuring to better take advantage of the inefficiencies of the market and reduce the active risk within the portfolio. Relative performance has improved since the restructuring with the composite outperforming the broad U.S. equity market over the one year period.

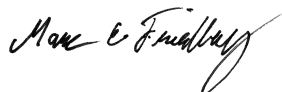
The recent underperformance in the fixed income composite relative to the benchmark is the primary contributor to the Total Fund's underperformance. The investment grade fixed income portfolio has significantly underperformed as a result of the distress in mortgage related fixed income securities. The fixed income composite also includes high yield and global inflation protected securities. The recent recovery in the credit market brought with it significant strong absolute and relative performance results.

The international equity composite underperformed the index over the one, three, and five year periods, while outperforming since the inception to date period. The international equity composite is undergoing additional restructuring to enhance diversification.

The real estate composite, which was implemented at the end of the third quarter 2007, has lagged the NCREIF Index over the 1 year period and since inception by 11.8% and 10.2%, respectively. The distress in the real estate and credit markets proved to be very difficult environments for this market segment as funds within the space continue to deleverage.

The ERS Board continued its efforts in maintaining best practices with its investment monitoring, focus on competitive fees, and ongoing education. If you have any questions or need any further information regarding the Plan or investment results, please don't hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc E. Friedberg". The signature is fluid and cursive, with a prominent loop at the end.

Marc E. Friedberg, CFA
Managing Director

Investment Manager Matrix

As of June 30, 2009

Investment Manager	Style	Account Balance \$(000)	% of Fund
<u>Domestic Equities</u>			
Artisan	Small Cap Value	\$ 24,344	5.4%
Barclays Global Investors	Large Cap	71,484	15.8%
J.P. Morgan	130/30 Short Extension	20,006	4.4%
Ranger Capital	SMID-Cap Growth	13,142	2.9%
RhumbLine Advisers	Large Cap	81,026	17.9%
		<u>\$ 210,002</u>	<u>46.4%</u>
<u>International Equities</u>			
AllianceBernstein	International Equities	\$ 27,429	6.1%
Capital Guardian Trust	International Equities	29,816	6.6%
		<u>\$ 57,245</u>	<u>12.7%</u>
<u>Fixed Income</u>			
Goldman Sachs	Core	\$ 28,056	6.2%
Loomis Sayles & Company	High Yield	28,137	6.2%
Western Asset	Core	83,746	18.5%
Western Asset	Global TIPS ¹	19,746	4.4%
W. R. Huff	High Yield ²	286	0.1%
		<u>\$ 159,971</u>	<u>35.4%</u>
<u>Real Estate</u>			
Principal Global Investors	Real Estate	\$ 22,147	4.9%
		<u>\$ 2,754</u>	<u>0.6%</u>
Cash			
		<u>\$ 2,754</u>	<u>0.6%</u>
TOTAL		<u>\$ 452,119³</u>	<u>100%</u>

¹ Treasury Inflation Protected Securities

² Maintains Adelpia and Century Securities

³ Net of Accrued Income on Investments and Investments Payable

List of Largest Held Domestic Equities As of June 30, 2009

<u>Equity Income Securities</u>	<u>No. of Shares</u>	<u>Fair Value</u>
BUCYRUS INTL INC NEW COM CL A	14,580	\$ 416,405
REORG/MACROVISION SOLUTIONS CORP N/C TOROVI SEC # 2053409 EFF 7/16/09	18,353	400,279
BOK FINL CORP COM NEW	9,879	372,142
EQUINIX INC COM NEW COM NEW	4,800	349,152
MONOLITHIC PWR SYS INC COM	15,332	343,590
AFFILIATED MANAGERS GROUP INC COM STK	5,740	334,011
HMS HLDGS CORP COM	7,820	318,430
ATHENAHEALTH INC COM MON STOCK	8,210	303,852
CONCUR TECHNOLOGIES INC COM	9,690	301,165
ARENA RES INC COM	9,370	298,435
ILLUMINA INC COM	7,660	298,280
NVIDIA CORP COM	26,390	297,943
SKYWORKS SOLUTIONS INC COM	30,140	294,769
EXCO RES INC COM	22,704	293,336
SUPERIOR ENERGY SVCS INC COM	16,380	282,883
99 CENTS ONLY STORES COM	20,560	279,205
COPART INC COM	7,790	270,079
SXC HEALTH SOLUTIONS CORP COM	10,570	268,689
SVB FINL GROUP COM	9,211	250,723
TRIUMPH GROUP INC NEW COM	6,180	247,200

A complete list of assets can be obtained at the office of the Employees' Retirement System.

List of Largest Held Fixed Income As of June 30, 2009

<u>Fixed Income Securities</u>	<u>Par</u>	<u>Fair Value</u>
FNMA SINGLE FAMILY MORTGAGE 5% 30 YEARS SETTLES JULY	4,000,000	\$ 4,072,500
FNMA POOL #984047 5.5% 06-01-2038 BEO	2,771,254	2,864,590
FEDERAL HOME LN MTG CORP POOL #G0-4222 5.5% 04-01-2038 BEO	2,562,909	2,649,381
FEDERAL HOME LN MTG CORP POOL #G0-3696 5.5% 01-01-2038 BEO	2,178,584	2,252,090
UNITED STATES TREAS NTS NT 2.625% DUE 06- 30-2014 REG	2,000,000	2,006,260
FHLMC 15 YEAR GOLD PARTICIPATION CERTIFICATE (PC) 5 15 YEARS SETTLES JULY	1,700,000	1,757,375
US TREAS INFL INDEXED BONDS 2.375 DUE 01- 15-2025 BEO	1,440,000	1,674,187
UNITED STATES TREAS BDS DTD 00209 3.5% DUE 02-15-2039 REG	1,580,000	1,366,210
FEDERAL HOME LN MTG CORP POOL #G0-3695 5.5% 11-01-2037 BEO	1,205,640	1,246,883
FHLMC GOLD SINGLE FAMILY 5.5 30 YEARS SETTLES JUL	1,200,000	1,238,626
RESOLUTION FDG CORP DTD 10/15/1990 9.375% DUE 10-15-2020 REG	725,000	1,012,724
TENNESSEE VALLEY AUTH GLOBAL PWR BD 2000SER G 7.125% DUE 05-01-2030 REG	800,000	967,669
UNITED STATES TREAS BDS INFL IX BOND 2.00 DUE 01-15-2026 REG	890,000	936,099
FNMA POOL #745959 5.5% 11-01-2036 BEO	902,743	933,766
FNMA NT 2.75 04-11-2011	905,000	930,987
FNMA POOL #973013 4.5% 03-01-2038 BEO	921,924	921,288
FNMA POOL #947201 6.5% 10-01-2037 BEO	816,402	870,635
FNMA POOL #942040 6% DUE 07-01-2037 REG	809,431	847,136
FEDERAL HOME LN MTG CORP POOL #1J-0404 5.632% 05-01-2037 BEO	780,798	818,833
GNMA POOL #671007 6% 08-15-2037 BEO	770,165	803,349

A complete list of assets can be obtained at the office of the Employees' Retirement System.

Schedule of Broker Commissions As of June 30, 2009

<u>Broker</u>	<u>Total Commissions</u>	<u>Broker</u>	<u>Total Commissions</u>
ADAMS HARKNESS & HILL, INC	\$ 843	MERRILL PROFESSIONAL CLEARING CORP.	\$ 646
AVONDALE PARTNERS	1,025	MORGAN KEEGAN AND COMPANY	457
BLAIR, WILLIAM & CO	832	MORGAN STANLEY & CO INC. NEW YORK	392
CARIS AND COMPANY INC 443	721	NEEDHAM & COMPANY	2,987
COWEN LLC	3,298	OPPENHEIMER & COMPANY INC	137
DEUTSCHE BANK SECURITIES INC	152	OPPENHEIMER AND COMPANY	2,215
FIRST ANALYSIS SECURITIES CORP	1,396	PICKERING ENERGY PARTNERS INC	860
GOLDMAN SACHS & COMPANY	176	PIPER JAFFRAY INC	3,652
HARRIS NESBITT CORP	308	PRITCHARD CAPITAL PARTNERS LLC	609
HIBERNIA SOUTHCOAST CAPITAL INC.	1,992	RAYMOND JAMES	1,213
HOWARD, WEIL, DIV LEGG MASON\	2,655	RBC DAIN RAUSCHER	1,510
INSTINET	498	ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	1,907
INVESTMENT TECHNOLOGY GROUP INC	156	ROTH CAPITAL PARTNERS LLC	242
J.P. MORGAN SECURITIES INC	3,083	SCOTT & STRINGFELLOW INVESTMENT	1,036
JEFFERIES & COMPANY	21,999	SIDOTI & COMPANY LLC	319
JMP SECURITIES	424	SOUTHWEST SECURITIES INC	729
JOHNSON RICE & CO.	3,070	STANFORD GROUP COMPANY	523
KEEFE BRUYETTE AND WOODS INC.	1,018	STEPHENS INC	1,987
KNIGHT SECURITIES L.P.	24,417	STIFEL NICOLAUS AND COMPAN	382
LAZARD FRERES & CO.	178	SUNTRUST ROBINSON HUMPHREY	1,716
LEERINK SWANN & CO./IPO	353	THINKEQUITY PARTNERS LLC	238
LEHMAN BROTHERS INC NEW YORK	752	THOMAS WEISEL PARTNERS 226	685
LIQUIDNET INC	11,701	WEDBUSH MORGAN SECURITIES, INC	2,242
LYNCH JONES & RYAN	612		
MACQUARIE SECURITIES (USA) INC.	254		

The above table is a condensed version of brokers' commissions. A complete list can be obtained at the Employees' Retirement System.

ACTUARIAL SECTION

October 24, 2008

Board of Trustees
The Maryland-National Capital Park
and Planning Commission
Employees' Retirement System
6611 Kenilworth Avenue, Suite 100
Riverdale, Maryland 20737

**Re: *The M-NCPPC Employees' Retirement System
Annual Review and Actuarial Valuation as of July 1, 2008***

Dear Board Members:

This report presents the results of the Annual Review and Actuarial Valuation of the M-NCPPC Employees' Retirement System prepared as of July 1, 2008 and sets forth the recommended contribution according to the System's funding policy.

The schedules included in this report are complete and accurate and assumptions and methods used in preparing the schedules are reasonable and in combination offer the actuary's best estimate of anticipated experience. Code section 415(b) limits have been applied in preparing this report.

The valuation was performed on the basis of employee census data as of July 1, 2008 and investment fund data as of July 1, 2008, submitted by the Retirement System staff. Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

Beginning with the July 1, 2007 Valuation, M-NCPPC retained Aon Consulting to perform valuations of the System. The report was prepared in accordance with generally accepted actuarial principles and practices.

The following schedules are included in this report:

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Solvency Test
- Analysis of Financial Experience
- Summary of GASB 25

FUNDING RECOMMENDATION AND CHANGE IN PLAN COSTS

As shown in the Summary of Results on Page 5, a contribution of \$16,385,961 is the recommended total to meet the System's funding objectives calculated as of July 1, 2008. Including 7.5% interest for one year, the contribution is \$17,614,908 payable at July 1, 2009. This contribution represents 13.3% of 2008 covered payroll. Last year's Recommended Contribution was \$13,008,064. With interest at 7.5% for one year, the contribution was \$13,983,669, or 11.4% of 2007 covered payroll.

A breakdown of the contribution payable July 1, 2009 between Park Police and Non-Police employees is shown below:

	7/1/2009 Amount \$	2008 Payroll \$	% of Payroll
Non-Police	15,414,352	118,338,594	13.0
Park Police	2,200,556	13,902,355	15.8
Total	17,614,908	132,240,949	13.3

The Net Employer Normal Cost payable at the beginning of the year increased from \$11,937,710 (9.7% of payroll) to \$13,922,013 (10.5% of payroll). The amortization of the Unfunded Actuarial Accrued Liability increased from \$1,070,354 to \$2,463,948 due to assumption changes and an actuarial loss. The following is the **Analysis of Financial Experience**.

	7/1/2008 Amount \$	% of Liability/Assets
<u>NET LIABILITY LOSS</u>		
Freeze Average Annual Earnings when Reach Service Cap	(5,413,247)	(0.8)
Salary Increases Greater than Expected	5,433,867	0.8
New Hires	777,411	0.1
New Terminations and Retirements	7,593,991	1.1
Other Experience	(2,199,696)	(0.3)
<u>ACTUARIAL ASSET VALUE LOSS</u>	183,824	0.0
<u>NET ACTUARIAL LOSS</u>	6,376,150	
<u>ASSUMPTION CHANGES</u>		
Change in Sick Leave Assumption	6,207,151	0.9
Assumed Increase in Code Section 401(a)(17) Compensation Limit and Code Section 415 Dollar Limitation	640,725	0.1

PLAN ASSETS

A 5-year asset smoothing method is used as the Actuarial Value of Assets to determine the funding requirements for the System. The return on the Actuarial Value of Assets was 7.10% during the past year, which is less than the 7.50% return assumption. Over the 5-year period ending on the valuation date, the return on the Actuarial Value of Assets was 6.31%, which is less than the 7.50% return assumption. The total Actuarial Value of Assets as of July 1, 2008 is \$633,699,751.

The total Market Value of Assets as of July 1, 2008 is \$578,163,771. The return on the Market Value of Assets was (8.85%) during the past year, which is less than the 7.50% return assumption. Over the 5-year period ending on the valuation date, the return on the Market Value of Assets was 6.78%, which is also less than the 7.50% return assumption.

FUNDED STATUS/GASB

The total Actuarial Accrued Liability under GASB 25 as of July 1, 2008 is \$662,224,634, compared to the Actuarial Value of Assets of \$633,699,751. On this basis, the funded ratio is 95.7%. The value of Accumulated Plan Benefits is \$578,968,569, resulting in a funded ratio of 99.9%, compared to the Market Value of Assets of \$578,163,771.

The Actuaries whose signatures appear below are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. Please call if you have any questions with regard to the matters enumerated in this report.

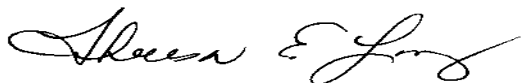
Aon Consulting's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of Aon Consulting's work.

We appreciate the opportunity to present the results of this valuation to the Board of Trustees.

Sincerely,



Chet Andrzejewski, F.S.A., E.A., M.A.A.A., F.C.A.
Senior Vice President



Theresa E. Long, A.S.A., E.A., M.A.A.A.
Vice President

Actuarial Assumptions and Valuation Methods

ACTUARIAL COST METHOD

Liability Valuation	The Entry Age Normal Actuarial Cost Method.
Asset Valuation	Assets are valued using a 5-year asset smoothing method. Under this method, the difference between expected asset return and actual asset return is recognized 20% per year over a 5-year period.
Amortization Method	Amortize July 1, 2005 Unfunded Actuarial Accrued Liability in equal payments to January 1, 2016. Amortize subsequent changes in Unfunded Actuarial Accrued Liability in equal payments over 15 years.

ACTUARIAL ASSUMPTIONS

The funding method, factors, and assumptions used in the cost determinations are presented below.

Valuation Date	July 1, 2008
Interest	7.5% compounded annually.
Salary Increases	4.0% per year plus additional merit increases as follows:

Years of Service	Park Police	Non-Police
0	.0450	.0300
5	.0350	.0275
10	.0250	.0250
15	.0150	.0200
20	.0000	.0150
25	.0000	.0000

ACTUARIAL ASSUMPTIONS (continued)

Mortality

Healthy Lives Pre-retirement and post-retirement mortality is assumed to reflect 100% of the 1994 Uninsured Pensioners Mortality Table.

For Park Police, 90% of deaths assumed to be service related; for Non-Police 33% of deaths are assumed to be service-related.

Disabled Lives Sample rates:

Age	Rate
45	.0538
50	.0558
55	.0582
60	.0626
65	.0691
70	.0769

Termination of Employment

Sample rates:

Years of Service	Park Police	Non-Police
0	.070	.110
5	.050	.070
10	.025	.050
15	.000	.025
20	.000	.015
25	.000	.010
30	.000	.005
35	.000	.000

ACTUARIAL ASSUMPTIONS (continued)

Disability

Sample rates:

Age	Park Police	Non-Police
25	.00256	.00094
30	.00366	.00147
35	.00508	.00219
40	.00693	.00329
45	.00940	.00511
50	.01354	.00838
55	.02288	.01000
60	.03434	.02107

Retirement Age

Sample rates:

Years of Service	Park Police %
5	10
10	10
15	10
20	15 ¹
25	33
30	100

¹ Police participants who are under age 55 with 20 to 24 years of service are assumed to retire at a rate of 15% per year.

ACTUARIAL ASSUMPTIONS (continued)

Retirement Age	Years of Service	Non Police ² %
	15 - 19	5
	20 - 23	10
	24 - 25	15
	26 - 29	10
Marriage		
	90% of male participants and 50% of female participants are assumed to be married with wives assumed to be 3 years younger and husbands 3 years older than participant.	
Expenses		
	The assumed interest rate is deemed to be net of investment expenses.	
	Other expenses are added to the Normal Cost and assumed to be 1.0% of payroll.	
Post-Retirement Cost-of-Living Adjustment		
	3.0% compounded annually.	
Social Security Wage Base Increase		
	4.0% compounded annually.	
New Entrants		
	None assumed.	
Unused Sick Leave Service Credit		
	0.25 additional months per year of service.	
Section 415 Dollar Limitation and Section 401(a)(17) Compensation Limit Increase		
	3.0% compounded annually.	

² Non-Police participants who have reached their Normal Retirement Age are assumed to retire at a rate of 20% per year. 100% retirement is assumed at age 70.

ACTUARIAL ASSUMPTIONS (continued)

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB 25

TOTAL SYSTEM						
SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll [(b)- (a)] / (c) %
	(a)	(b)	(b) - (a)	(a) / (b)	(c)	
	\$	\$	\$	%	\$	%
7/1/2003	506,098,931	434,485,148	(71,613,783)	116.5	99,788,705	(71.8)
7/1/2004	507,413,323	469,344,285	(38,069,038)	108.1	101,881,882	(37.4)
7/1/2005	521,369,236	507,393,109	(13,976,127)	102.8	106,058,394	(13.2)
7/1/2006	552,432,436	544,748,263	(7,684,173)	101.4	109,579,279	(7.0)
7/1/2007	600,285,246	615,588,955	15,303,709	97.5	122,825,271	12.5
7/1/2008	633,699,751	662,224,634	28,524,883	95.7	132,240,949	21.6

Schedule of Active Member Valuation Data

Valuation Date	Total Number of Members	Annual Salary	Annual Average Pay	% Increase in Average Pay
General Employees				
7/1/2002	1,826	\$84,038,121	\$46,023	4.3%
7/1/2003	1,860	89,038,121	43,137	4.6%
7/1/2004	1,839	91,116,338	49,547	2.9%
7/1/2005	1,818	95,455,839	52,506	6.0%
7/1/2006	1,819	98,545,203	54,175	3.2%
7/1/2007	1,874	110,019,634	58,708	8.4%
7/1/2008	1,904	118,338,594	62,153	5.9%
Park Police				
7/1/2002	187	\$10,144,637	\$54,249	3.2%
7/1/2003	181	10,253,253	56,648	4.4%
7/1/2004	186	10,765,543	57,879	2.2%
7/1/2005	183	10,602,555	57,937	.1%
7/1/2006	176	11,034,076	62,694	8.2%
7/1/2007	190	12,805,637	67,398	7.5%
7/1/2008	197	13,902,355	70,570	4.7%
Total				
7/1/2002	2,013	\$94,182,758	\$46,787	4.2%
7/1/2003	2,041	99,788,705	48,892	4.5%
7/1/2004	2,025	101,881,882	50,312	2.9%
7/1/2005	2,001	106,058,394	53,003	5.3%
7/1/2006	1,995	109,579,279	54,927	3.6%
7/1/2007	2,064	122,825,271	59,508	8.3%
7/1/2008	2,101	132,240,949	62,942	5.8%

Schedule of Retirants and Beneficiaries Added to And Removed from the Rolls

As of	Annual Allowances Added to Rolls	Annual Allowances Removed From Rolls	July 1 Total Benefit Recipients	Monthly Allowance as of July 1	Annual Allowance as of July 1	% Increase in Annual Allowances	Average Annual Allowances
7/1/2008	81	29	924	\$2,015,810.08	\$24,189,720.96	8.1%	\$26,094.63
7/1/2007	61	22	872	\$1,864,939.74	\$22,379,276.88	10.1%	\$25,547.12
7/1/2006	98	18	833	\$1,694,066.90	\$20,328,802.80	16.2%	\$24,404.33
7/1/2005	66	23	753	\$1,458,348.91	\$17,500,186.92	10.4%	\$23,240.62
7/1/2004	N/A	N/A	710	\$1,321,207.10	\$15,854,485.20	N/A	\$22,330.26

Additions to the rolls include new retirees and the beneficiaries of an active or retired member's death.

Deletions from the rolls include deaths of retirees, deaths of the surviving beneficiaries, surviving children who have reached the age of 18 or 23 if a full-time student, and the expiration of 10 year-certain benefits.

The information in this table is presented for the last six years only. Prior to 2004 the information was not maintained in this format and is not available for comparative purposes.

Solvency Test

Actuarial Accrued Liabilities for

Valuation Date	Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets (%)		
07/01/2002	\$42,932,695	\$172,699,508	\$185,222,824	\$475,869,664	100	100	140.5
07/01/2003	46,965,293	191,521,960	196,897,895	506,098,931	100	100	136.4
07/01/2004	48,236,859	210,016,466	211,090,960	507,413,323	100	100	118.0
07/01/2005	50,307,768	234,867,535	222,217,806	521,369,236	100	100	106.3
07/01/2006	47,011,118	268,335,133	229,402,012	552,432,436	100	100	137.5
07/01/2007	52,039,017	296,186,895	267,363,043	600,285,246	100	100	94.3
07/01/2008	53,665,183	327,978,867	280,580,584	633,699,751	100	100	89.8

STATISTICAL SECTION

Statistical Section Narrative

To assist readers, the Statistical Section of this Comprehensive Annual Financial Report presents information to add historical perspective, context, and detail to the financial statements, notes to financial statements, and required supplementary information presented in the preceding sections. To provide historical perspective, assess the ERS' overall financial condition, and a sense of trend, the exhibits in this Section are presented in multiple-year formats.

The **Schedule of Changes in Net Assets** shows the historical combined effects of the additions and deductions of plan net assets over the seven-year period ended June 30, 2009 as well as detailing the ERS' largest source of revenue capacity - investment income through June 30, 2007 and investment loss for the years ended June 30, 2008 and 2009 which assists in providing a context on how the ERS' financial position has changed over time.

The **Schedule of Benefit and Refund Deductions** provides the general information of payment trends of annuity data by type and refund of contributions for the seven-year period ended June 30, 2009.

The **Schedule of Average Monthly Payment Amounts** provides the summary of statistics relating to the average annuitant's receipt of annuities over the seven-year period ended June 30, 2009.

Schedule of Changes in Net Assets
For Years Ended June 30¹
(dollars in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Additions							
Employer contributions	\$ 14,933	\$ 10,561	\$ 9,825	\$ 8,337	\$ 5,052	\$ 1,203	\$ 540
Member contributions	4,893	4,522	4,402	3,898	3,828	3,747	3,583
Investment income(loss) (net of expenses)	<u>(119,445)</u>	<u>(55,310)</u>	<u>90,748</u>	<u>40,529</u>	<u>35,595</u>	<u>63,533</u>	<u>26,219</u>
Total additions	<u>(99,619)</u>	<u>(40,227)</u>	<u>104,975</u>	<u>52,764</u>	<u>44,475</u>	<u>68,483</u>	<u>30,342</u>
Deductions							
Benefit payments	25,671	23,636	21,319	19,129	16,670	15,258	13,734
Refunds	249	382	489	360	419	601	350
Administrative expenses	<u>1,359</u>	<u>1,250</u>	<u>1,182</u>	<u>1,078</u>	<u>1,054</u>	<u>1,059</u>	<u>1,047</u>
Total deductions	<u>27,279</u>	<u>25,268</u>	<u>22,990</u>	<u>20,567</u>	<u>18,143</u>	<u>16,918</u>	<u>15,131</u>
Change in net assets	<u><u>\$(126,898)</u></u>	<u><u>\$(65,495)</u></u>	<u><u>\$ 81,985</u></u>	<u><u>\$32,197</u></u>	<u><u>\$26,332</u></u>	<u><u>\$51,565</u></u>	<u><u>\$15,211</u></u>

¹ Data for 2002-2000 not readily available.

Schedule of Benefit and Refund Deductions
From Net Assets by Type
For Years Ended June 30¹
(dollars in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Type of Benefit							
Retirees	\$ 22,515	\$ 20,505	\$18,640	\$ 16,580	\$ 14,576	\$ 13,135	\$ 11,825
Survivors	3,072	3,050	2,600	2,472	74	2,051	1,838
Disability benefits	83	81	79	77	2,020	72	71
Total benefits	<u>\$ 25,670</u>	<u>\$ 23,636</u>	<u>\$21,319</u>	<u>\$ 19,129</u>	<u>\$ 16,670</u>	<u>\$ 15,258</u>	<u>\$ 13,734</u>
Refund of contributions	\$ 249	\$ 382	\$ 489	\$ 360	\$ 419	\$ 601	\$ 350

¹ Data for 2002-2000 not readily available.

Schedule of Average Benefit Payments¹ As of July 1, 2008

	Years of Credited Service --->							<u>Total</u>
	<u>0-5</u>	<u>6-10</u>	<u>11-15</u>	<u>16-20</u>	<u>21-25</u>	<u>26-30</u>	<u>>30</u>	
Number of Retirees and Survivors	40	107	116	138	170	191	162	924
Average monthly benefit	\$102	\$627	\$927	\$1,406	\$2,285	\$3,020	\$4,114	\$2,184
Average final average salary	\$30,442	\$40,181	\$41,689	\$45,753	\$54,026	\$56,042	\$65,097	\$50,560
Average years of service	3.6	8.2	12.9	18.1	23.1	28.7	33.4	21.5

¹Data for 1999-2007 not readily available.