The Employees' Retirement System
A Blended Component Unit of
The Maryland-National Capital Park and Planning Commission

# Comprehensive Annual Financial Report

**For the Fiscal Years Ended June 30, 2013 and June 30, 2012**

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**For the Fiscal Years Ended June 30, 2013 and June 30, 2012**

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

The Maryland-National Capital Park and Planning Commission Employees' Retirement System ("ERS") received a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting and its attainment represents a significant accomplishment. Sheila S. Joynes, Accounting Manager, is recognized and congratulated for leading the CAFR team to another award in excellence. Heather Brown and Ann McCosby are recognized for their significant roles and contributions to the project.

**ERS' BOARD OF TRUSTEES and CAFR TEAM**

***Back Row, Left to Right****: MCGEO Representative Josh Ardison; Prince George's County Public Member Richard H. Bucher, Ph.D.; Ex-Officio/Secretary Treasurer Joseph C. Zimmerman, CPA; Montgomery County Public Member Elton F. King; Bi-County Open Trustee Barbara Walsh; Prince George's County Open Trustee LaKisha Giles; Senior Administrative Specialist Heather Brown.*

***Front Row, Left to Right:*** *Montgomery County Open Trustee Khalid Afzal; Ex-Officio/Executive Director Patricia Colihan Barney; Administrator Andrea Rose; ERS Board of Trustees Chairman Elizabeth M. Hewlett; Accounting Manager Sheila Joynes; IT Systems Manager Ann McCosby.*

*Not Shown: ERS Board of Trustees Vice Chairman Casey Anderson and FOP Representative Guy Jones.*

# Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and June 30, 2012

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EMPLOYEES' RETIREMENT SYSTEM
The Maryland-National Capital Park and Planning Commission
6611 Kenilworth Avenue, Suite 100
Riverdale, Maryland 20737

(301) 454-1415 - Telephone
(301) 454-1413 - Facsimile
http://ers.mncppc.org

*Andrea L. Rose*
*Administrator*

September 23, 2013

The Board of Trustees:

The Maryland-National Capital Park and Planning Commission ("Commission") Employees' Retirement System's (ERS) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 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). 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 CliftonLarsonAllen, 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 of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the ERS' CAFR for the fiscal year ended June 30, 2012. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting and its attainment represents a significant accomplishment. We believe our CAFR continues to conform to the Certificate of Achievement program requirements and we will be submitting our CAFR for the current year to the GFOA.

The Public Pension Coordinating Council (PPCC) recognizes public pension systems that meet the professional standards for public retirement system management and administration as set forth by the PPCC. The ERS was awarded the Public Pension Standards Award for Administration 2012. The Award recognizes achievement of high professional standards in the area of plan administration. The PPCC encourages all state and local governments to meet these standards.

**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 ("Board"). 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.

Faced with continued fiscal challenges, the Commission approved a new defined benefit plan designated as Plan E for all non-police employees, Commissioners and appointed officials hired on or after January 1, 2013. Therefore, effective December 31, 2012 Plan B was closed to new employees.

Today, the ERS consists of five defined benefit pension plans: Plan A, the original plan; Plan B, for non-police, integrated with Social Security; Plans C and D, for park police; and, Plan E, for non-police and appointed officials hired on or after January 1, 2013.

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 ERS 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 on-site workshops and one-on-one counseling. In accordance with the Uniform Management of Public Employees Retirement Systems Act, the ERS provides Annual Benefit Statements that project benefits at normal retirement; a Popular Annual Financial Report, which contains a summary of 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 *LifeTimes*, 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 the 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 a 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 can also be accessed via the ERS' website, http://ers.mncppc.org.

**Investment Results**

For the year ending June 30, 2013, the ERS fund returned 11.8% versus its policy benchmark of 10.7%. The ERS fund return was 11.7% for the three-years ended June 30, 2013 and 5.3% for the five-years ended June 30, 2013 versus the policy index which returned 11.7% and 4.6%, respectively. Diversification is important now more than ever during these market conditions. Refer to the Investment Consultant's Report on page 47 for a market overview with investment results by asset class and a portfolio review highlighting the ERS' restructuring activities.

**Major Initiatives**

The most notable accomplishment for FY2013 was implementation of the revised asset allocation policy approved by the Board in the first quarter of 2012. Implementation included new investment allocations in global fixed income, private equity, and public and private real assets. The majority of tasks were completed in the first half of 2013 and included:

- Reducing the large cap equity allocation;
- Increasing the international equity allocation;
- Transitioning one international manager to the MSCI ACWI ex US benchmark for a broader mandate that included emerging markets;
- Engaging a private equity manager to provide a broad diversification across buyout funds, venture capital funds and special situations for both current vintage year exposure and secondary partnership interests to back fill prior vintage years;
- Transitioning the core fixed income account to a global opportunistic fixed income mandate;
- Eliminating the long duration fixed income and treasury inflated protected securities (TIPS) mandates;
- Engaging a diversified real assets manager with an allocation that includes TIPS, commodities, REITS, and natural resources; and,
- Continuing commitments with the existing private real assets manager.

Additional initiatives and accomplishments included implementing plan amendments effective July 1, 2012 and January 1, 2013 which included updates to the pension calculation software, website, plan document, summary plan descriptions and other key reports; reducing the investment return assumption from 7.5% to 7.4% effective with the July 1, 2013 Actuarial Valuation; approving an allocation to a real estate debt fund; and, engaging a new U.S. small cap equity growth manager.

**Internal Controls**

It is the responsibility of management to develop and maintain systems of internal controls, which are designed to provide reasonable, but not absolute, assurances for the safeguarding of assets and the reliability of financial records. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits derived and the valuation of costs and benefit require estimates and judgments by management. Controls are also put in place to limit the risk of collusion. However, it should be recognized that all internal controls have inherent limitations.

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 and their report on the basic financial statements is included in the CAFR on pages 16-17.

Annually, the Board prepares and presents an operating budget setting forth projected expenditures for the operation of the ERS for the Commission's review and approval. The Board also prepares certain projected expenses, including banking, investment consulting and investment manager fees for the Commission's information. The Board monitors closely the fees and expenses from consultants and professional advisors to ensure comparability to other public funds of the ERS' size and complexity. Although there is no formal restriction or budget guideline imposed by parties outside the Board, the Board is sensitive to the limitations imposed on the Commission by the two counties.

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. For 2013 and 2012, the gains, including investment expense, were $72,801,688 and $14,100,657, respectively. Total contributions decreased from $36,578,007 in 2012 to $29,160,962 in 2013. The decrease can be attributed to an actuarial gain that resulted from plan and assumption changes and an adjustment to the actuarial liability. Total deductions increased by 7.3% from $35,603,405 in 2012 to $38,197,154 in 2013. Pension benefits and refunds account for $36,631,724 and the remainder of $1,565,430 was attributed to administrative expenses (see page 20).

**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 42). 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, 2012, indicated that the funded ratio of the actuarial value of assets to the actuarial accrued liability for benefits was 82.3%. As of July 1, 2012, the actuarial value of assets is $660,231,611 and the actuarial accrued liability is $802,077,365.

**Acknowledgments**

The preparation of this CAFR reflects combined efforts of the ERS' staff. Special recognition is extended to Sheila Joynes for her lead role. 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

Andrea L. Rose
Administrator

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**The Maryland-National**

**Capital Park and Planning Commission**

**Employees' Retirement System**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

PPCC

Public Pension Coordinating Council

## *Recognition Award for Administration 2012*

Presented to

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

In recognition of meeting professional standards for
plan 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)

Alan H. Winkle

Alan H. Winkle
Program Administrator

# Board of Trustees



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 the Commission's monthly newsletter, *Update,* and posted on the ERS' Web Site, http://ers.mncppc.org.

# Organizational & Reporting Structure

**The Maryland-National Capital Park and Planning Commission**

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

**Andrea L. Rose**
Administrator

**Heather D. Brown**
Senior Administrative Specialist

**Ann L. McCosby**
IT Systems Manager

**Edward D. Sarkar**
IT Manager

**Sheila S. Joynes**
Accounting Manager

**Antonia L. Lanier**
Member Relations Manager

**Lisa D. Butler**
Senior Retirement Benefits Analyst

**Angela Griggs-Montero**
Member Relations Assistant

# Staff, Consultants & Professional Service Providers

STAFF

**Andrea L. Rose**
Administrator

**Heather D. Brown**
Senior Administrative Specialist

Member Relations
**Antonia L. Lanier**
Member Relations Manager

**Lisa D. Butler**
Senior Retirement Benefits Analyst

**Angela Griggs-Montero**
Member Relations Assistant

Technical and Accounting Services
**Sheila S. Joynes**
Accounting Manager

**Ann L. McCosby**
IT Systems Manager

**Edward D. Sarkar**
IT Manager

CONSULTANTS & PROFESSIONAL SERVICE PROVIDERS

Actuary
Boomershine Consulting Group, L.L.C.

Auditor
CliftonLarsonAllen, LLP

Banking
The Northern Trust Company
Bank of America

Investment Consultant
Wilshire Associates, Inc.

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

Brokerage & Transition Consultant
Global Transition Solutions, Inc.

Note: For the Investment Manager Directory see page 46 and for the Schedule of Broker Commissions see page 56.

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
http://ers.mncppc.org
***
Hours of Service
Monday-Friday
8 a.m. to 5 p.m.

# FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

# INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Maryland-National Capital Park and Planning Commission Employees' Retirement System (the System), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Funding Progress and Schedules of Employer Contributions (collectively the required supplementary information) on pages 18-20 and 42-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Schedules of Administrative Expenses, Investment Expenses, and Payments to Consultants, and the Introductory, Investment, Actuarial, and Statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Schedules of Administrative Expenses, Investment Expenses, and Payments to Consultants (collectively the Supplementary Information) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial, and Statistical sections, as listed in the Table of Contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Maryland-National Capital Park and Planning Commission Employees' Retirement System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Baltimore, Maryland
September 25, 2013

# 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, 2013, 2012 and 2011. 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 $694.0 million and $630.2 million at June 30, 2013 and 2012, respectively. Of this amount, $693.9 million and $630.1 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 2013 and 2012 total fiduciary net position held in trust for pension benefits increased by $63.8 million (10.1%) and $15.1 million (2.5%) respectively, due primarily to investment gains.
- The most recent actuarial valuation of the ERS reflects the funded ratio of 82.3% as of July 1, 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The Statement of Changes in Fiduciary Net Position presents information showing how the ERS' net position changed during the fiscal year. All changes in net position 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 position 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

**Fiduciary Net Position and Changes in Fiduciary Net Position:** The following table reflects the ERS' net position and changes in net position as of and for the years ended June 30, 2013, 2012 and 2011 (in thousands).

| | June 30, 2013 | June 30, 2012 | June 30, 2011 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 777,695 | $ 706,366 | $ 697,556 |
| Other assets | 65 | 76 | 88 |
| Total assets | 777,760 | 706,442 | 697,644 |
| **Liabilities** | | | |
| Total liabilities | 83,792 | 76,239 | 82,517 |
| **Fiduciary net position held in trust for pension** | $ 693,968 | $ 630,203 | $ 615,127 |

| | Year Ended June 30, 2013 | Year Ended June 30, 2012 | Year Ended June 30, 2011 |
|---|---|---|---|
| **Changes in fiduciary net position** | | | |
| Total additions, net | $ 101,963 | $ 50,678 | $ 141,375 |
| Total deductions, net | 38,197 | 35,603 | 34,500 |
| **Increase in fiduciary net position** | $ 63,766 | $ 15,075 | $ 106,875 |

### Current Assets

The largest component of fiduciary net position is the ERS' investments. At June 30, 2013, 2012 and 2011, cash and investments amounted to approximately $776.2 million, $704.7 million and $695.9 million, respectively. In 2013, 2012 and 2011, the increase in fiduciary net position resulted primarily from a net gain from investing activities. Total receivables of $1.5 million, $1.7 million and $1.5 million represent accrued income on investments and receivables of member contributions at June 30, 2013, 2012 and 2011, respectively.

### Liabilities

Liabilities are primarily comprised of amounts payable on securities lending transactions and investments payable. Securities lending liabilities amounted to approximately $82.2 million, $66.0 million and $68.7 million at June 30, 2013, 2012 and 2011, 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 $.3 million, $9.4 million and $12.8 million at June 30, 2013, 2012 and 2011, respectively.

### 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 during the fiscal years ended June 30, 2013, 2012 and 2011 (in millions):

| | June 30, 2013 | June 30, 2012 | June 30, 2011 |
|---|---|---|---|
| Employer contributions | $ 23.8 | $ 32.2 | $ 25.6 |
| Member contributions | 5.4 | 4.4 | 4.7 |
| Net investment income | 72.8 | 14.1 | 111.0 |
| **Net additions** | $ 102.0 | $ 50.7 | $ 141.3 |

## Financial Analysis of the System (continued)

**Contributions**

During 2013, the actuarial recommended employer contributions to the ERS decreased from 22.9% ($32,182,287) to 18.0% ($23,806,058) of covered payroll. The decrease can be attributed to an actuarial gain that resulted from plan and assumption changes and an adjustment to the actuarial liability. Effective July 1, 2007, employer contributions are paid based on the prior year's valuation. The ERS uses a five-year asset smoothing method to determine the actuarial value of plan assets. During the period of July 1, 2011 through June 30, 2012, investment performance on the actuarial value of assets was 1.28%. Over the five-year period ending on the valuation date, July 1, 2012, the return on the actuarial value of assets was 1.92%.

**Net Investment Income**

The net investment income for the ERS totaled $72.8 million, $14.1 million and $111.0 million for 2013, 2012 and 2011, respectively, that was comprised of $57.5 million, $3.0 million and $101.7 million in net appreciation in fair value of investments, including investment advisory and management fees, $15.1 million, $10.7 million and $9.2 million in dividends and interest income, and $.2 million, $.2 million and $.1 million from securities lending activities for 2013, 2012 and 2011, respectively. Generally, net investment income has varied during the three-year period due to the changes in the market.

**Deductions**

The deductions from the ERS include the payment of retiree and survivor benefits, participant refunds and administrative expenses. Deductions for 2013, 2012 and 2011 totaled $38.2 million, $35.6 million and $34.5 million, respectively. Such amounts represent increases of 7.3% and 3.2% over 2012 and 2011, respectively. At the beginning of fiscal year 2013, eligible retirees received a 3.1% cost-of-living adjustment which contributed to the 7.3% increase in deductions from 2012 to 2013. The following table reflects the ERS' deductions by type in 2013, 2012, 2011 (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Benefits | $ 36,263 | $ 33,833 | $ 32,775 |
| Refunds | 369 | 317 | 359 |
| Administrative expenses | 1,565 | 1,453 | 1,366 |
| **Total deductions** | $ 38,197 | $ 35,603 | $ 34,500 |

**Funded Status**

An actuarial valuation is performed annually to determine the funding requirements for the ERS. The ERS' funding policy provides for annual employer contributions at actuarially determined rates that are based on a level percent of pay, and when combined with member contributions, will pay for projected benefits at retirement for the average plan participant. The most recent valuation of the ERS, performed as of July 1, 2012, indicated that the funded ratio of the actuarial value of assets to the actuarial accrued liability for benefits was 82.3%.

**Request for Information**

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, Employees' Retirement System, 6611 Kenilworth Avenue, Suite 100, Riverdale, Maryland 20737.

# Statements of Fiduciary Net Position

## June 30, 2013 and 2012

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **INVESTMENTS AT FAIR VALUE (note 4)** | | | | |
| Fixed income securities | $ | 166,832,044 | $ | 190,806,489 |
| International fixed income securities | | 11,125,113 | | 26,608,748 |
| Venture capital/alternative investments | | 18,339,236 | | 16,883,391 |
| Corporate stock | | 348,097,649 | | 297,976,005 |
| International corporate stock | | 77,995,456 | | 49,042,620 |
| Real estate | | 46,264,851 | | 40,470,556 |
| Short term investments | | 27,380,462 | | 17,674,248 |
| Securities lending short term collateral investment pool | | 80,072,342 | | 65,088,801 |
| Total investments at fair value | | 776,107,153 | | 704,550,858 |
| **CASH** | | 130,873 | | 100,674 |
| **RECEIVABLES** | | | | |
| Accounts receivable-member contributions | | 299,060 | | 56,398 |
| Accrued income on investments | | 1,157,838 | | 1,657,702 |
| Total receivables | | 1,456,898 | | 1,714,100 |
| **OTHER ASSETS** | | | | |
| Prepaid expenses | | 46,873 | | 45,792 |
| Equipment at cost, net of accumulated depreciation of $235,763 and $224,093 | | 18,673 | | 30,343 |
| Total other assets | | 65,546 | | 76,135 |
| Total assets | | 777,760,470 | | 706,441,767 |
| **LIABILITIES** | | | | |
| Investments payable | | 298,713 | | 9,387,822 |
| Accrued expenses | | 860,975 | | 647,579 |
| Refunds payable | | 391,579 | | 248,906 |
| Payable for securities lending collateral | | 82,241,046 | | 65,954,799 |
| Total liabilities | | 83,792,313 | | 76,239,106 |
| **FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION BENEFITS** | $ | 693,968,157 | $ | 630,202,661 |

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

# Statements of Changes in Fiduciary Net Position

## For the Years Ended June 30, 2013 and 2012

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **ADDITIONS TO FIDUCIARY NET POSITION** | | | | |
| Contributions (note 6) | | | | |
| Employer | $ | 23,806,058 | $ | 32,182,287 |
| Employees | | 5,354,904 | | 4,395,720 |
| Total contributions | | 29,160,962 | | 36,578,007 |
| Investment income | | | | |
| Interest | | 15,008,322 | | 9,503,172 |
| Dividends | | 70,519 | | 1,226,630 |
| Net appreciation in fair value of investments | | 60,228,131 | | 5,394,746 |
| Other | | 169,123 | | 162,251 |
| Less – investment advisory and management fees | | (2,895,248) | | (2,381,945) |
| Net gain from investing activities | | 72,580,847 | | 13,904,854 |
| Securities lending activity (note 4) | | | | |
| Securities lending income | | 265,571 | | 190,211 |
| Borrower rebate | | 97,134 | | 130,248 |
| Securities lending expenses: | | | | |
| Management fees | | (141,864) | | (124,656) |
| Net income from securities lending | | 220,841 | | 195,803 |
| Net investment gain | | 72,801,688 | | 14,100,657 |
| Total additions | | 101,962,650 | | 50,678,664 |
| **DEDUCTIONS FROM FIDUCIARY NET POSITION** | | | | |
| Benefits and other payments | | | | |
| Pension benefits | | 32,618,001 | | 30,547,203 |
| Disability benefits | | 89,680 | | 86,983 |
| Survivor and death benefits | | 3,555,281 | | 3,199,444 |
| Refunds of contributions | | 368,762 | | 316,681 |
| Administrative expenses (note 7) | | 1,565,430 | | 1,453,094 |
| Total deductions | | 38,197,154 | | 35,603,405 |
| **INCREASE IN FIDUCIARY NET POSITION** | | 63,765,496 | | 15,075,259 |
| **FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION BENEFITS** | | | | |
| Beginning of year | | 630,202,661 | | 615,127,402 |
| End of year | $ | 693,968,157 | $ | 630,202,661 |

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 within the meaning of Section 401(a) of the Internal Revenue Code of 1986.

The Board of Trustees ("Board") 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 that 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 ERS consists of five contributory, single employer defined benefit pension plans sponsored by the Commission. Three of the plans, Plan A, B and D are closed to new entrants, and two, Plan C and E are open for park police and general employees, respectively.

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

**General Employee Retirement**. General employees may be members of Plans A, B, or E. 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. 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 was mandatory for part-time Merit System employees, and Commissioners and Appointed Officials of the Commission. Plan B is integrated with Social Security and members vest after five years of credited service, with the exception of Commissioners and Appointed Officials who receive full and immediate vesting. Membership in Plan B closed effective December 31, 2012. 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. Plan E became mandatory for all full-time and part-time general career employees, Commissioners and Appointed Officials hired on or after January 1, 2013. Plan E is integrated with Social Security and members fully vest after ten years of credited service with the exception of Commissioners and Appointed Officials who receive full and immediate vesting. Normal retirement in Plan E is age 62 with 10 years of credited service or 30 years of credited service, regardless of age.

**Park Police Retirement**. Park Police may be members of Plans C or D. 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, Plan D was closed to new employees, and Plan C was amended and reopened to provide benefits for Park Police hired after July 1, 1993. Plan D was closed to new participants effective 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.

**1. Organization and Plan Description (continued)**

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 5 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 5 years of credited service, or has completed 25 years of credited service, regardless of age.

**Benefits**. Benefit payments for Plans A, B, C, and D 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 Plan C and 32 years for members of Plan D. Benefit payments in Plan E are determined by application of a benefit formula considering the average of an employee's annual base pay during the five consecutive years that produce the highest total earnings prior to retirement and credited service up to 35 years. Under certain conditions, participants may elect to take early retirement at a reduced benefit level. Joint and survivor options are also available under all 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-All Items Annual Average, Urban Index for Major U. S. Cities (CPI). Plans A, B, C and D provide COLAS 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 for the portion of a member's benefit attributable to credited service earned prior to July 1, 2012, including earned and unused sick leave prior to January 1, 2013. The portion of a member's benefit attributable to credited service earned after July 1, 2012, including earned and unused sick leave on and after January 1, 2013, will be subject to a maximum COLA of 2.5%. Plan E provides COLAs at 100% of the change in the CPI up to a maximum COLA of 2.5%.

**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 for active members are established by the plan sponsor; set forth in the ERS' plan document; and, recognized when due. 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.

## 2. Summary of Significant Accounting Policies (continued)

**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 fair value, which represents the net asset value of the collateral received. 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.

For alternative investments, which include venture capital, private equity and real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales.

The pricing services used for fixed income securities are Interactive Data Corporation by Institutional Bid Evaluation daily; international fixed income securities use the PC Bond Group or IBOXX by Institutional Mid Evaluation daily; corporate stock uses the Interactive Data Corporation as of the official close of NASDAQ daily; international corporate stock uses Telekurs by the Last Trade daily; venture capital uses the Limited Partnership by the Institutional Bid Evaluation or Valuation as Priced for US and international; and real estate uses the Investment Managers by Evaluation as priced.

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

## 3. Membership by Plan

As of July 1, 2012, membership in the ERS was as follows:

| | Plan A (General | Plan A (Police) | Plan B | Plan C | Plan D | Total |
|---|---|---|---|---|---|---|
| Retirees & beneficiaries receiving benefits | 351 | 18 | 674 | 40 | 93 | 1,176 |
| Terminated employees entitled to benefits but not yet receiving them | - | - | 214 | 7 | 3 | 224 |
| Active participants employer financed vested | 16 | - | 1,850 | 169 | 17 | 2,052 |
| **Total membership** | 367 | 18 | 2,738 | 216 | 113 | 3,452 |

## 4. Cash, Investments and Securities Lending

### Cash and Short Term Investments

For short term investments, 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 short term investments at June 30, 2013 and 2012 were $27,511,335 and $17,774,922, respectively. Cash deposits that were insured and collateralized in the bank account totaled $130,873 and $100,674 at June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, respectively, the ERS held $27,380,462 and $17,674,248 of short term investments in its custodial investment accounts.

As of June 30, 2013, the ERS held $99,519 of short term investments that were exposed to custodial credit risk.

### Investments

The Board 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 in the first quarter of 2012 as follows:

| Asset Class | Target Exposure | Expected Range |
|---|---|---|
| U.S. Equities | 23.0% | 18%-28% |
| International Equities | 23.0% | 18%-28% |
| Private Equities | 5.0% | 0%-8% |
| **Total Equities** | **51.0%** | **46%-56%** |
| U.S. Core Fixed Income | 14.0% | 10%-18% |
| High Yield Fixed Income | 7.5% | 5%-10% |
| Global Opportunistic Fixed Income | 7.5% | 5%-10% |
| **Total Fixed Income** | **29.0%** | **24%-34%** |
| Public Real Assets | 5.0% | 0%-15% |
| Private Real Assets | 15.0% | 5%-20% |
| **Total Real Assets** | **20.0%** | **10%-25%** |

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 Guidelines

- U.S. equity investment managers are limited to no more than 5% of the value of the portfolio in short term investments 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 and mid-capitalization stocks".

**4. Cash, Investments and Securities Lending (continued)**

**International Equity Guidelines**
- Cash equivalent exposure is limited to 5%.
- 80% to 100% should be invested in "developed markets".
- 0% to 20% should be invested in "emerging markets".

**Private Equity Guidelines**
- The portfolio is expected to be diversified by geographic location with the following weightings: North America (approximately 50%), Europe (approximately 30%), and the Asia-Pacific region and other emerging markets (approximately 20%).
- The composite is expected to be diversified by the following investment types: buyouts, venture capital, growth equity, distressed, and special situations (private equity-like investments, such as mezzanine debt, asset-intensive assets or royalty streams and other opportunistic funds).
- Secondary fund investments and direct co-investments are permitted on an opportunistic basis with a combined maximum limit of 20%.
- Investments should be diversified by vintage year.
- No single partnership investment is expected to be more than 20% of the private equity composite. This guideline shall not apply during initial funding.

**Core Fixed Income Guidelines**
- The fixed income composite is limited to 20% of its value in short term investments 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, 2013 was 5.83 years with the Merrill Lynch BB/B and the Barclays Aggregate at 4.46 and 5.49 years, respectively.
- The fixed income composite is expected to maintain an aggregate weighting of at least a single A.
- Build America Bonds issued by Montgomery County and Prince George's County are prohibited.

**High Yield Fixed Income Guidelines**
- Average credit quality ranges between BB and B.
- Securities rated below B- are limited to no more than 10% of the manager's portfolio.
- Cash equivalent exposure is limited to no more than 5%.

**Global Opportunistic Fixed Income Guidelines**
- The fixed income composite may contain an allocation to opportunistic investments and distressed securities.
- Flexible guidelines allow managers to invest globally, to add value through investment decisions such as duration management, yield curve positioning, and sector/issue selection.

**Private Real Assets (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.

**4. Cash, Investments and Securities Lending (continued)**

**Private Real Assets (ex-Real Estate) Guidelines**

- Investments will be structured privately in the form of limited partnerships and diversified among the following investment types: energy, mining, timber, agriculture, and infrastructure.
- The portfolio is expected to be diversified by geographic location with the following weightings: U.S. (65%-75%), Non-U.S. Developed (15%-20%), and Non-U.S. Emerging (10%-15%).
- The fund will be diversified by vintage year. No single partnership commitment is expected to be more than 20% of the real assets composite or more than 20% of the portfolio of a fund-of-funds manager.

**Public Real Assets Guidelines**

- Investments structured in public real assets include natural resource stocks, real estate securities (including REITs), commodities and inflation indexed bonds that are broadly diversified such that each sub-asset class may contribute to the portfolio's real return and risk profile.

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.

| Investments | Fair Value 2013 | Fair Value 2012 |
|---|---|---|
| Common stock | $ 390,272,441 | $ 343,207,541 |
| Preferred stock | 404,745 | 236,509 |
| Convertible equity | 1,488,385 | 1,264,712 |
| Venture Capital and Private Equity Partnerships | 18,339,236 | 16,883,391 |
| Government bonds | 9,695,926 | 39,013,430 |
| Government agencies | 10,021,690 | 18,673,820 |
| Provincial bonds | 1,799,377 | 4,380,155 |
| Corporate bonds | 81,517,607 | 85,569,208 |
| Corporate convertible bonds | 4,038,962 | 2,309,863 |
| Equity exchange traded fund | 29,888,572 | 0 |
| Government mortgage-backed securities | 19,930,498 | 32,603,930 |
| Government-issued commercial mortgage-backed | 98,624 | 311,153 |
| Commercial mortgage-backed | 6,801,625 | 6,848,196 |
| Asset-backed securities | 400,816 | 2,450,542 |
| Non-government backed CMOs | 0 | 905,401 |
| Index linked government bonds | 4,221,007 | 8,114,074 |
| Index linked corporate bonds | 183,364 | 157,566 |
| Fixed income mutual funds | 43,286,623 | 18,387,762 |
| Real estate | 46,264,851 | 40,470,556 |
| Short term investment funds | 27,380,462 | 17,674,248 |
| Securities lending short term collateral investment pool | 80,072,342 | 65,088,801 |
| **Total Investments** | $ 776,107,153 | $ 704,550,858 |

**4. Cash, Investments and Securities Lending (continued)**

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.

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' $776.1 million in investments at June 30, 2013, $80.1 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.

Interest Rate Risk

Each investment manager has duration targets and bands that control interest rate risk; however, the ERS has no policy relating to interest rate risk.

As of June 30, 2013, the ERS had the following fixed income investments and short term investments with the following maturities:

| | Fair Value | Weighted Average |
|---|---|---|
| Asset-backed securities | $ 400,816 | 3.521438 |
| Commercial mortgage-backed | 6,801,625 | 28.453961 |
| Corporate bonds | 81,517,607 | 10.039558 |
| Corporate convertible bonds | 4,038,962 | 12.571810 |
| Government agencies | 10,021,690 | 13.419946 |
| Government bonds | 9,695,926 | 8.770640 |
| Government mortgage-backed securities | 19,930,498 | 25.321786 |
| Gov't-issued commercial mortgage-backed securities | 98,624 | 7.339000 |
| Index linked corporate bonds | 183,364 | 24.008000 |
| Index linked government bonds | 4,221,007 | 8.622816 |
| Provincial bonds | 1,799,377 | 10.784563 |
| Fixed income mutual funds | 43,286,623 | N/A |
| Short term investment funds | 24,875,595 | N/A |
| **TOTAL** | $ 206,871,714 | 13.104567 |

As of June 30, 2012, the ERS had the following fixed income investments and short term investments with the following maturities:

| | Fair Value | Weighted Average |
|---|---|---|
| Asset-backed securities | $ 2,450,542 | 10.794628 |
| Commercial mortgage-backed | 6,848,196 | 28.495831 |
| Corporate bonds | 85,569,208 | 12.27396 |
| Corporate convertible bonds | 2,309,863 | 14.134898 |
| Government agencies | 18,673,820 | 13.858442 |
| Government bonds | 39,013,430 | 10.902149 |
| Government mortgage-backed securities | 32,603,930 | 25.704846 |
| Gov't-issued commercial mortgage-backed securities | 311,153 | 7.645294 |
| Index linked corporate bonds | 157,566 | 25.008 |
| Index linked government bonds | 8,114,074 | 2.104429 |
| Provincial bonds | 4,380,155 | 24.235848 |
| Non-government backed CMOs | 905,401 | 25.943296 |
| Fixed income mutual funds | 18,387,762 | N/A |
| Short term investment funds | 13,201,022 | N/A |
| **TOTAL** | $ 232,926,122 | 14.891924 |

**4. Cash, Investments and Securities Lending (continued)**

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 mortgagees, 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 $905,401 in CMOs at June 30, 2012 and none were held June 30, 2013.

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 $400,816 and $2,450,542 in ABS at June 30, 2013 and 2012, 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; however, there is no formal policy relating to a specific investment-related 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 Statement of Investment Policy.

**4. Cash, Investments and Securities Lending (continued)**

Credit Quality Ratings as of June 30, 2013:

| Credit Quality Distribution for Services | | % of Total Portfolio |
|---|---|---|
| Agency | AGY | 3.296% |
| Agency | AAA | 0.126% |
| Agency | AA | 1.078% |
| Agency | A | 0.042% |
| Government Bonds | A | 0.095% |
| Government Bonds | BBB | 0.110% |
| Government Bonds | BB | 0.032% |
| Government Bonds | NR | 0.605% |
| Government Mortgage-Backed Securities | AA | 0.071% |
| Government Mortgage-Backed Securities | NR | 0.061% |
| Index Linked Government Bonds | BBB | 0.138% |
| Gov't-issued Commercial Mortgage-Backed | AA | 0.013% |
| Asset-Backed Securities | AAA | 0.017% |
| Asset-Backed Securities | NR | 0.035% |
| Commercial Mortgage-Backed | AAA | 0.547% |
| Commercial Mortgage-Backed | AA | 0.019% |
| Commercial Mortgage-Backed | BBB | 0.035% |
| Commercial Mortgage-Backed | NR | 0.275% |
| Corporate Bonds | AAA | 0.039% |
| Corporate Bonds | AA | 0.371% |
| Corporate Bonds | A | 0.837% |
| Corporate Bonds | BBB | 3.508% |
| Corporate Bonds | BB | 1.531% |
| Corporate Bonds | B | 0.818% |
| Corporate Bonds | CCC | 0.464% |
| Corporate Bonds | CC | 0.007% |
| Corporate Bonds | NR | 0.181% |
| Corporate Convertible Bonds | A | 0.020% |
| Corporate Convertible Bonds | BBB | 0.073% |
| Corporate Convertible Bonds | BB | 0.180% |
| Corporate Convertible Bonds | B | 0.118% |
| Corporate Convertible Bonds | NR | 0.129% |
| Index Linked Corporate Bonds | BBB | 0.024% |
| Municipal/Provincial Bonds | AA | 0.104% |
| Municipal/Provincial Bonds | A | 0.020% |
| Municipal/Provincial Bonds | BBB | 0.024% |
| Municipal/Provincial Bonds | BB | 0.084% |
| Other Fixed Income | NR | 1.341% |
| Funds - Corporate Bond | NR | 2.748% |
| Funds - Other Fixed Income | NR | 4.222% |
| Funds - Short Term Investment | NR | 3.205% |

**4. Cash, Investments and Securities Lending (continued)**

Credit Quality Ratings as of June 30, 2012:

| Credit Quality Distribution for Services | | % of Total Portfolio |
|---|---|---|
| Agency | Government | 11.302% |
| Agency | AAA | 0.059% |
| Agency | AA | 2.131% |
| Agency | A | 0.189% |
| Government Bonds | A | 0.073% |
| Government Bonds | BBB | 0.026% |
| Government Bonds | BB | 0.021% |
| Government Bonds | NR | 0.033% |
| Government Mortgage-Backed Securities | AA | 0.007% |
| Government Mortgage-Backed Securities | NR | 0.150% |
| Gov't-issued Commercial Mortgage-Backed | AA | 0.017% |
| Asset-Backed Securities | AAA | 0.149% |
| Asset-Backed Securities | AA | 0.047% |
| Asset-Backed Securities | A | 0.004% |
| Asset-Backed Securities | BB | 0.019% |
| Asset-Backed Securities | B | 0.015% |
| Asset-Backed Securities | D | 0.013% |
| Asset-Backed Securities | NR | 0.101% |
| Commercial Mortgage-Backed | AAA | 0.724% |
| Commercial Mortgage-Backed | AA | 0.044% |
| Commercial Mortgage-Backed | A | 0.007% |
| Commercial Mortgage-Backed | BBB | 0.003% |
| Commercial Mortgage-Backed | NR | 0.194% |
| Corporate Bonds | AAA | 0.062% |
| Corporate Bonds | AA | 0.723% |
| Corporate Bonds | A | 3.390% |
| Corporate Bonds | BBB | 3.006% |
| Corporate Bonds | BB | 0.649% |
| Corporate Bonds | B | 0.988% |
| Corporate Bonds | CCC | 0.198% |
| Corporate Bonds | CC | 0.028% |
| Corporate Bonds | D | 0.014% |
| Corporate Bonds | NR | 0.313% |
| Corporate Convertible Bonds | A | 0.063% |
| Corporate Convertible Bonds | BB | 0.118% |
| Corporate Convertible Bonds | B | 0.105% |
| Corporate Convertible Bonds | NR | 0.043% |
| Index Linked Corporate Bonds | BBB | 0.022% |
| Index Linked Government Bonds | BBB | 0.002% |
| Municipal/Provincial Bonds | AAA | 0.034% |
| Municipal/Provincial Bonds | AA | 0.401% |
| Municipal/Provincial Bonds | A | 0.154% |
| Municipal/Provincial Bonds | NR | 0.033% |
| Non-Government Backed CMOs | AAA | 0.084% |
| Non-Government Backed CMOs | A | 0.022% |
| Non-Government Backed CMOs | NR | 0.023% |
| Other Fixed Income | NR | 0.173% |
| Funds - Corporate Bond | NR | 2.774% |
| Funds - Other Fixed Income | NR | 2.425% |
| Funds - Short Term Investment | NR | 1.874% |

**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, 2013 was as follows:

| Investment Type | Currency | Fair Value |
|---|---|---|
| Government Bonds | Euro | $ 1,049,782 |
| Government Bonds | Mexican peso | 720,402 |
| Government Agencies | Brazilian real | 360,693 |
| Government Agencies | Philippine peso | 324,170 |
| Corporate Bonds | Australian dollar | 226,451 |
| Corporate Bonds | Euro | 90,355 |
| Corporate Bonds | Mexican peso | 152,337 |
| Corporate Bonds | Brazilian real | 118,150 |
| Common Stock | Swiss franc | 2,415,944 |
| Common Stock | Czech koruna | 891,155 |
| Common Stock | Euro | 9,256,716 |
| Common Stock | British pound sterling | 6,008,833 |
| Common Stock | Hong Kong dollar | 5,985,173 |
| Common Stock | South Korean won | 2,824,016 |
| Common Stock | Norwegian krone | 4,382,428 |
| Common Stock | Swedish krona | 2,497,131 |
| Common Stock | Turkish lira | 966,041 |
| Common Stock | Japanese yen | 7,638,687 |
| Common Stock | Brazilian real | 1,145,044 |
| Municipal/Provincial Bonds | Euro | 182,745 |
| Cash | Swiss franc | 17,577 |
| Cash | Japanese yen | 39,605 |
| Cash | Hong Kong dollar | 29,445 |
| Cash | Euro | 12,892 |
| **Total** | | $ 47,335,772 |

The ERS' exposure to foreign currency risk at June 30, 2012 was as follows:

| Investment Type | Currency | Fair Value |
|---|---|---|
| Government Bonds | Euro | $ 373,243 |
| Government Bonds | Mexican peso | 516,757 |
| Government Agencies | Brazilian real | 417,814 |
| Government Agencies | Philippine peso | 328,820 |
| Corporate Bonds | Australian dollar | 353,067 |
| Corporate Bonds | Euro | 235,855 |
| Corporate Bonds | Mexican peso | 154,953 |
| Common Stock | Brazilian real | 2,440,176 |
| Common Stock | Swiss franc | 1,088,938 |
| Common Stock | Czech koruna | 591,469 |
| Common Stock | Euro | 4,925,728 |
| Common Stock | British pound sterling | 5,074,518 |
| Common Stock | Hong Kong dollar | 4,417,111 |
| Common Stock | Japanese yen | 5,358,532 |
| Common Stock | South Korean won | 1,333,010 |
| Common Stock | Norwegian krone | 1,964,700 |
| Common Stock | Swedish krona | 1,493,872 |
| Common Stock | Singapore dollar | 545,425 |
| Cash | Hong Kong dollar | 15,915 |
| **Total** | | $ 31,629,903 |

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

**4. Cash, Investments and Securities Lending (continued)**

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 authorized the lending of fixed income securities, which activity is managed by the custodian bank. The Board authorized a securities lending loan cap of 30% effective October 6, 2010 with an increase to 50% effective February 1, 2011. 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, 2013 and 2012.

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 Fiduciary Net Position. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans were approximately 74 days in 2013 and 135 days in 2012.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 43 days as of this statement date. 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. Securities lending earnings are credited to the ERS' accounts on approximately the fifteenth day of the following month.

The custodial 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, 2013:

| Securities Lent | Fair Value | Cash Collateral Received* |
|---|---|---|
| Fixed income securities | $ 26,376,329 | $ 26,951,744 |
| Domestic equities | 50,502,249 | 51,804,876 |
| Global equities | 3,193,764 | 3,484,426 |
| **Total** | $ 80,072,342 | $ 82,241,046 |

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2012:

| Securities Lent | Fair Value | Cash Collateral Received* |
|---|---|---|
| Fixed income securities | $ 41,723,746 | $ 42,438,596 |
| Domestic equities | 21,644,383 | 21,746,268 |
| Global equities | 1,720,672 | 1,769,935 |
| **Total** | $ 65,088,801 | $ 65,954,799 |

*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.

**5. Derivatives Policy Statement**

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Statement of Investment Policy. 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. At June 30, 2012, the ERS held derivatives with fair market values of approximately $950 with an underlying notional market value of -$5,772,938**.** However, at June 30, 2013 the ERS did not hold any derivatives. Gains and losses are determined based on quoted market values and recorded in the Statement of Changes in Fiduciary Net Position. The objective of Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" is to enhance the usefulness and comparability of derivative instrument information reported by state and local governments.

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.

Typically, investment advisors enter into foreign exchange contracts to make payment for international investments. Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The investment advisor uses these contracts primarily for its international investments to settle pending trades. To reduce the risk of counterparty nonperformance, the investment advisors generally enter into these contracts with institutions meeting high standards of credit worthiness. The realized and unrealized gain/loss on contracts are included in the ERS' net position and represents the fair value of the contracts on June 30, 2013 and June 30, 2012, the ERS' contracts to purchase and sell by foreign currencies were as follows:

Foreign Exchange Contracts Settled as of June 30, 2013:

| Currency | Purchases | Realized Gain/(Loss) | Sells | Realized Gain/(Loss) |
|---|---|---|---|---|
| Australian dollar | $ - | $ - | $ (134,703) | $ (288) |
| Brazilian real | 956,569 | (3,906) | (3,331,841) | (1,606) |
| British pound sterling | 1,293,984 | (14,873) | (1,242,270) | (7,484) |
| Czech koruna | 244,956 | (6,126) | (36,848) | 291 |
| Euro | 9,400,899 | 42,759 | (5,912,220) | (42,736) |
| Hong Kong dollar | 5,063,462 | 29 | (4,819,936) | 469 |
| Japanese yen | 1,813,961 | 2,495 | (1,270,856) | 2,893 |
| Mexican peso | 241,842 | (967) | (70,965) | 149 |
| Norwegian krone | 2,134,371 | (6,498) | (74,106) | 55 |
| Singapore dollar | 697,079 | (490) | (1,470,932) | 866 |
| South Korean won | 2,040,319 | (1,638) | (415,996) | (316) |
| Swedish krona | 557,689 | (2,359) | (48,615) | (357) |
| Swiss franc | 687,983 | (3,402) | (41,253) | (158) |
| Turkish lira | 1,615,932 | 4,761 | (888,755) | (72) |

**5. Derivatives Policy Statement (continued)**

Foreign Exchange Contracts Settled as of June 30, 2012:

| Currency | Purchases | Realized Gain/(Loss) | Sells | Realized Gain/(Loss) |
|---|---|---|---|---|
| Australian dollar | $ 131,352 | $ (2,823) | $ (18,814) | $ (34) |
| Brazilian real | 1,458,980 | 5,669 | (355,285) | (1,031) |
| British pound sterling | 964,000 | 99 | (51,799) | 9 |
| Canadian dollar | 350,739 | 1,043 | (333,395) | 1,341 |
| Czech koruna | 369,306 | 255 | (91,666) | 855 |
| Euro | 3,347,540 | 18,121 | (4,340,717) | 24,930 |
| Hong Kong dollar | 651,565 | (24) | (1,708,648) | 308 |
| Japanese yen | 102,598 | (254) | (65,217) | (214) |
| Mexican peso | - | - | (885,203) | (3,323) |
| Norwegian krone | 218,017 | 678 | (53,320) | (51) |
| Singapore dollar | - | - | (6,341) | 5 |
| South Korean won | 1,085,543 | (1,815) | (77,313) | (243) |
| Swedish krona | 277,509 | (2,776) | (26,800) | (1) |
| Swiss franc | - | - | (30,151) | (257) |

Foreign Exchange Contracts Pending June 30, 2013:

| Currency | Purchases | Unrealized Gain/(Loss) | Sells | Unrealized Gain/(Loss) |
|---|---|---|---|---|
| Euro | $ 234,000 | $ (6,300) | $ (1,579,391) | $ 549 |
| Hong Kong dollar | 61,034 | 8 | (29,445) | (4) |
| Japanese yen | - | - | (39,605) | 376 |
| Swiss franc | - | - | (10,742) | (4) |

Foreign Exchange Contracts Pending June 30, 2012:

| Currency | Purchases | Unrealized Gain/(Loss) | Sells | Unrealized Gain/(Loss) |
|---|---|---|---|---|
| Euro | $ - | $ - | $ (564,852) | $ 18,864 |
| Japanese yen | - | - | (35,192) | (160) |

**6. 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 methodology amortizes the unfunded actuarial accrued liability for a closed amortization period 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 using an open approach 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 2013 and 2012 were $29,160,962 and $36,578,007, respectively. In 2013, the Commission contributed $23,806,058 (18.0% of covered payroll of $132,490,722). Employees contributed $5,354,904 (4.0% of covered payroll). In 2012, the Commission contributed $32,182,287 (22.9% of covered payroll of $140,407,414). Employees contributed $4,395,720 (3.1% of covered payroll). The Commission's contributions decreased 26% from 2012 to 2013. The decrease can be attributed to an actuarial gain that resulted from plan and assumption changes and an adjustment to the actuarial liability.

**6. Contributions Required and Contributions Made (continued)**

Employees participating in Plan A contribute 6.5% 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 and E contribute 3.5% and 4%, respectively, of their base pay up to the Social Security covered wage base and 6.5% and 8%, respectively, thereafter.

Upon termination of employment, a participant may elect to receive a refund of contributions, or if he/she is fully vested under the terms of his/her plan, 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.

**7. Administrative Expenses**

The Board 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, 2013 and 2012 was $1,565,430 and $1,453,094, respectively. The administrative expenses are financed by the employer contributions.

The liability for accrued leave as of June 30, 2013 and 2012, was $140,760 and $138,364, respectively, and has been included in accrued expenses in the accompanying financial statements.

Administrative expenses charged to the ERS by the Commission for 2013 were: computer services of $47,200, legal of $64,200, rent of $77,370, postage of $6,000, and copier leasing costs of $8,796. In 2012 the expenses were: computer services of $47,200, legal of $64,200, rent of $73,780, postage of $3,994, and copier leasing costs of $4,098.

**8. Federal Income Taxes**

The ERS obtained its latest determination letter on July 3, 2012, 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.

In accordance with the Internal Revenue Service's Determination Letter Program, the ERS is required to submit a determination letter application every five years during Cycle C. The deadline for filing an application is January 31, 2014.

**9. 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.

### 9. Funded Status of Plan (continued)

As of the most recent actuarial valuation date, July 1, 2012, the plan had the following funding status:

| (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded AAL (UAAL) (2) – (1) | (4) Funded Ratio % (1)/(2) | (5) Covered Payroll | (6) UAAL as a Percentage of Covered Payroll (3) / (5) |
|---|---|---|---|---|---|
| $660,231,611 | $802,077,365 | $141,845,754 | 82.3% | $129,911,593 | 109.2% |

### 10. Actuarial Cost Method

The actuarial cost method utilized to determine contributions to the Plan for the actuarial valuation date of July 1, 2012 is the Entry-Age Normal Actuarial Cost Method. The method used to determine the actuarial value of assets is five-year smoothing.

The ERS amortization method of the unfunded actuarial accrued liability is Level Dollar. Effective July 1, 2007, the methodology amortizes the unfunded actuarial accrued liability for a closed amortization period 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 using an open amortization approach over 15 years.

The more significant actuarial assumptions underlying the actuarial computations for the valuation effective July 1, 2012 are as follows:

| | |
|---|---|
| **Investment Rate of Return** | 7.5% compounded annually |
| **Salary Increases** | 2% per year plus additional merit increases for 2011-2013 and 3% per year plus additional merit increases for 2014 and later |
| **Post-Retirement Cost-of-Living Adjustment** | 3.0% compounded annually for benefits accrued until July 1, 2012, 2.5% compounded annually thereafter. |
| **Mortality** | RP-2000 Projected to 2010 and Generational Method applied using Scale AA factors after 2010. |

### 11. 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 ("401(a) 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.

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) Plan and in compliance with IRS regulations. The payroll for two employees covered by the 401(a) Plan for the year ended June 30, 2013 was $248,015 and the total payroll was $732,067. The ERS' contribution to the 401(a) Plan was $19,521 (2.7% of covered payroll) for the year ended June 30, 2013.

The payroll for the two employees covered by the 401(a) Plan for the year ended June 30, 2012, was $244,954 and the total payroll was $699,553. The ERS' contribution to the 401(a) Plan was $19,521 (2.8% of covered payroll) for the year ended June 30, 2012.

**11. Retirement Contributions for Employees of the ERS (continued)**

The payroll for two employees covered by the 401(a) Plan for the year ended June 30, 2011, was $245,804 and the total payroll was $691,535. The ERS' contribution to the 401(a) Plan was $19,521 (2.8% of covered payroll) for the year ended June 30, 2011.

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 Commission'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.

**12. 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 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 3 ERS retirees are participating in the Commission's medical plans. The Commission contributes 80% of the amount of medical, dental, prescription and vision insurance rates for retirees. For full-time and part-time ERS employees, the Commission contributes 82.5% of the amount of all medical and dental insurance rates, except for the lowest cost medical plan and the prescription plan. The cost share for the lowest cost medical plan and the prescription plan remains at 85% paid by the Commission. The Commission contributes 80% of the low vision option. Detailed information of the plan may be accessed via the Commission's CAFR.

**Funding Policy** – In fiscal year 2008, the Commission and plan sponsor of the ERS began phasing in over an eight year period actuarially based funding of Other Post-Employment Benefits (OPEB) in connection with the implementation of the accounting requirements of GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions". The ERS pays the contributions based on requested actuarial funding amounts from the Commission. For the years ended June 30, 2013 and 2012, the ERS contributed $27,400 and $15,800, respectively. The OPEB is documented as a part of the Commission's CAFR. 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 204, Riverdale, Maryland 20737 or via the Commission's website, http://www.mncppc.org (See Budget/CAFR).

**13. 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 2013 or 2012 nor was any insurance coverage reduced in 2013 or 2012. 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.

**14. Accounting Pronouncements**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The adoption of this standard did not have a material impact on the ERS' financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and defined the residual of assets and deferred outflows less liabilities and deferred inflows as net position. The ERS has implemented the effects of this Statement for the reporting period ending June 30, 2013. The effect of this Statement on the ERS was a change in the format of the financial statements to include the concept of net position.

GASB routinely issues standards that will become effective in future years. The following is a list of standards that have been issued that management has determined may have an impact on future financial statements of the ERS. Management is currently evaluating the specific impact of these Standards.

Statement No. 65, *Items Previously Reported as Assets and Liabilities*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement will become effective for the reporting period ending June 30, 2014.

The GASB has issued Statement No. 67, "Financial Reporting for Pension Plans; an amendment of GASB Statement No. 5." This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

The GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions" ("GASB 68" or the "Statement") an amendment of GASB No. 27, which establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for governments that have a legal obligation to contribute to those plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014.

**15. Subsequent Events**

At its June 19, 2013 meeting, the Commission adopted a plan design change to increase the employee contributions by 0.5% (one-half of one percent) in Plans A and B effective the first full pay period in July 2014.

# 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.

| Actuarial Valuation Date | Actuarial Value of Assets (a) $ | Actuarial Accrued Liability (AAL) Entry Age (b) $ | Unfunded AAL (UAAL) (b) – (a) $ | Funded Ratio (a)/(b) % | Covered Payroll (c) $ | UAAL as a % of Covered Payroll [(b)-(a)] / (c) % |
|---|---|---|---|---|---|---|
| 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 |
| 7/1/2009 | 541,519,199 | 726,000,351 | 184,481,152 | 74.6 | 142,590,713 | 129.4 |
| 7/1/2010 | 609,902,953 | 763,860,139 | 153,957,186 | 79.8 | 140,407,414 | 109.7 |
| 7/1/2011 | 659,362,107 | 761,343,000 | 101,980,893 | 86.6 | 132,490,722 | 77.0 |
| 7/1/2012 | 660,231,611 | 802,077,365 | 141,845,754 | 82.3 | 129,911,593 | 109.2 |

Analysis of the dollar amounts of fiduciary net position, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing fiduciary net position 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 % |
| 2006 | 8,337,228 | 100 |
| 2007 | 9,824,590 | 100 |
| 2008 | 10,561,434 | 100 |
| 2009[1] | 13,983,669 | 100 |
| 2010 | 17,614,908 | 100 |
| 2011[2] | 35,206,700 | 72.8 |
| 2012 | 32,182,287 | 100 |
| 2013 | 23,806,058 | 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.

[2] The Commission made a contribution of $25,633,000. As a result, the unfunded actuarial accrued liability will increase by $9,573,700 and will be amortized over 15 years as part of future annual required contributions.

### 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)] |
|---|---|---|---|---|---|---|---|
| 07/01/12 | Entry age Normal | 3.5 (A) | Level dollar/ Open | 5 year smoothing | 7.5% | 2.0% plus variable merit increases | 3.0% (prior to 7/1/12/2.5% after 7/1/12) |

(A) The ERS changed the methodology for amortization of the unfunded actuarial accrued liability. Effective July 1, 2007, the 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) 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 1.3% during the past year, which was 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 1.9% which is less than the 7.50% return assumption. The total actuarial value of assets as of July 1, 2012 was $660,231,611. The total market value of assets as of July 1, 2012 is $654,008,719. The return on the market value of assets is 2.2% 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 0.4%, which is less than the 7.50% return assumption.

(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 5% maximum.

# Supplementary Schedule

## Schedule of Administrative Expenses
## Fiscal Years Ended June 30

| | 2013 | 2012 |
|---|---|---|
| **Personnel services** | | |
| Salaries and wages | $ 732,067 | $ 699,553 |
| Social security contributions | 52,391 | 50,365 |
| Retirement contributions | 80,321 | 117,715 |
| Insurance contributions | 106,363 | 94,913 |
| Other employee benefits | 43,624 | 29,107 |
| Unemployment compensation | 336 | 336 |
| Total personnel services | 1,015,102 | 991,989 |
| **Professional and contractual services** | | |
| Actuarial | 64,810 | 70,654 |
| Auditing | 22,210 | 22,731 |
| Legal | 176,437 | 120,405 |
| Computer services | 79,950 | 47,700 |
| Other contractual services | 3,013 | 2,907 |
| Total professional and contractual services | 346,420 | 264,397 |
| **Communication costs** | | |
| Printing | 6,917 | 6,138 |
| Telephone | 1,500 | 1,368 |
| Postage | 6,000 | 3,994 |
| Travel, conference and meetings | 17,211 | 21,902 |
| Total communication costs | 31,628 | 33,402 |
| **Other services and charges** | | |
| Office space rental | 77,370 | 73,780 |
| Equipment leasing | 8,796 | 4,098 |
| Furniture and equipment | 3,464 | 152 |
| Supplies | 3,996 | 8,604 |
| Maintenance | 28,079 | 24,024 |
| Bonding and insurance | 33,655 | 34,622 |
| Dues and subscriptions | 2,112 | 2,112 |
| Other services | 3,138 | 4,244 |
| Total other services and charges | 160,610 | 151,636 |
| **Depreciation** | 11,670 | 11,670 |
| **Total** | $ 1,565,430 | $ 1,453,094 |

# Supplementary Schedule

## Schedule of Investment Expenses
## Fiscal Years Ended June 30

| | 2013 | 2012 |
|---|---|---|
| **Investment managers** | | |
| Fixed income | $ 758,206 | $ 730,537 |
| U.S. Equity | 459,522 | 439,745 |
| International equity | 1,112,989 | 737,308 |
| Private equity | 10 | - |
| Real assets | 67,475 | 420 |
| Total investment managers' fees | 2,398,202 | 1,907,590 |
| **Other investment service fees** | | |
| Custodian fees | 307,646 | 288,054 |
| Investment consulting fees | 189,400 | 186,300 |
| Security lending fees: | | |
| Borrower rebate | (97,134) | (130,248) |
| Management fees | 141,864 | 124,656 |
| Total other investment service fees | 541,776 | 468,762 |
| **Total** | $ 2,939,978 | $ 2,376,352 |

# Supplementary Schedule

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

| Firm Name | Nature of Service | 2013 | 2012 |
|---|---|---|---|
| CliftonLarsonAllen, LLP | Auditor | $ 22,210 | $ 22,731 |
| Wilshire Associates, Inc. | Investment Consultant | 189,400 | 186,300 |
| Boomershine Consulting Group, LLC | Actuary | 64,810 | 70,654 |
| GROOM Law Group | Legal | 112,237 | 56,205 |
| The Maryland-National Capital Park and Planning Commission Legal Department | Legal | 64,200 | 64,200 |
| The Maryland-National Capital Park and Planning Commission Finance Department | Computer Services | 47,200 | 47,200 |
| **Total** | | $ 500,057 | $ 447,290 |

# INVESTMENTS SECTION

# Investment Manager Directory

**U.S. EQUITIES**

Artisan Partners, L.P.
BlackRock Institutional Trust Company
J.P. Morgan Investment Management, Inc.
Russell 2000 Growth ETF
RhumbLine Advisors, L.P.

**INTERNATIONAL EQUITIES**

Capital Guardian Trust Company
Earnest Partners, LLC

**FIXED INCOME**

Core Fixed Income Composite

C.S. McKee, L.P.
Eaton Vance Management

High Yield Fixed Income Composite

Loomis Sayles & Company, L.P.
Neuberger Berman Fixed Income, LLC
W. R. Huff Asset Management[1]

Opportunistic Fixed Income

Western Asset Global Multi-Sector
Oaktree PPIP Private Fund, L.P.
Oaktree Opportunities Fund VIII, L.P.

**PRIVATE REAL ASSETS**

FLAG Energy & Resources Partners II, L.P.
FLAG Real Estate Partners II, L.P.
Principal Global Investors, LLC

**PUBLIC REAL ASSETS**

State Street Global Advisors

**PRIVATE EQUITY**

Wilshire Private Markets

[1] Maintains Adelphia and Century securities only.

# INVESTMENT CONSULTANT'S REPORT

Wilshire

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

From: Michael J. Dudkowski, Managing Director
Wilshire Associates ("Wilshire")

Date: August 26, 2013

Subject: Annual Investment Advisor's Review

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***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 varying levels of compensating return. 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 Hewitt and the subsequent Asset/Liability study conducted by the investment consultant, Wilshire Associates, presented March 6, 2012.

The following asset allocation policy was adopted in first quarter 2012 following the Asset/Liability study. The new asset allocation policy has been implemented as of June 30, 2013, with the exception of the private investments which will fund gradually over time.

| Asset Class | Target % | Range % |
|---|---|---|
| U.S. Equities | 23.0 | 18-28 |
| International Equities | 23.0 | 18-28 |
| Private Equities | 5.0 | 0-8 |
| ***Total Equities*** | ***51.0*** | ***46-56*** |
| U.S. Core Fixed Income | 14.0 | 10-18 |
| High Yield Fixed Income | 7.5 | 5-10 |
| Global Opportunistic Fixed Income | 7.5 | 5-10 |
| ***Total Fixed Income*** | ***29.0*** | ***24-34*** |
| Public Real Assets | 5.0 | 0-15 |
| Private Real Assets | 15.0 | 5-20 |
| ***Total Real Assets*** | ***20.0*** | ***10-25*** |

## *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 increases
   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. Wilshire also tracks the availability and timeliness of statements sent by trustee banks. In addition, Wilshire has a dedicated team of data analysts responsible for maintaining statement receipts and portfolio data feeds, and loading asset portfolios into the performance system.

- Managers – Wilshire receives manager returns and detailed account statement information to use in the return 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 the index department collects returns and portfolios on over 800 benchmarks. Wilshire's manager research department collects manager returns and portfolios for the construction of universes. This data is also loaded into the 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, Wilshire will review individual holdings, prices, accruals, cash flows and fees to determine where the discrepancies lie. If an error has been made, Wilshire will work with appropriate parties to correct the error. If the difference is due to structural differences in the way the sources perform their calculations, Wilshire will include an explanation in the reconciliation. Reconciliation work is documented and can be provided to the client for its records.

## Market Overview

### Major Asset Class Returns for Periods Ending June 30, 2013

| | QTR | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|
| **Equity** | | | | | | |
| Wilshire 5000 Index | 2.8 | 14.0 | 21.1 | 18.5 | 7.2 | 8.0 |
| Standard & Poor's 500 Index | 2.9 | 13.8 | 20.7 | 18.5 | 7.0 | 7.3 |
| MSCI EAFE (N) Index | -1.0 | 4.1 | 18.6 | 10.0 | -0.6 | 7.7 |
| MSCI ACWI ex-U.S. (N) Index | -3.1 | 0.0 | 13.6 | 8.0 | -0.8 | 8.6 |
| MSCI Emerging Market (N) Index | -8.1 | -9.6 | 2.9 | 3.4 | -0.4 | 13.7 |
| **Fixed Income** | | | | | | |
| Barclays Aggregate Bond Index | -2.3 | -2.4 | -0.7 | 3.5 | 5.2 | 4.5 |
| Merrill Lynch High Yield BB/B Index | -1.6 | 0.8 | 8.5 | 10.1 | 9.4 | 7.8 |
| Barclays Global Aggregate Index | -2.8 | -4.8 | -2.2 | 3.6 | 3.7 | 4.8 |
| Treasury Bills (91 Day) | 0.0 | 0.0 | 0.1 | 0.1 | 0.3 | 1.7 |
| **Real Assets** | | | | | | |
| Barclays U.S. TIPs Index | -7.1 | -7.4 | -4.8 | 4.6 | 4.4 | 5.2 |
| Dow Jones UBS Commodity Index | -9.4 | -10.5 | -8.0 | -0.3 | -11.6 | 2.4 |
| Wilshire Global REIT Index | -3.5 | 3.0 | 10.5 | 18.5 | 6.0 | |
| NCREIF ODCE Index | 3.6 | 6.1 | 11.1 | 13.9 | -1.1 | 6.0 |
| Consumer Price Index | 0.3 | 1.7 | 1.8 | 2.3 | 1.3 | 2.4 |

### *US Equity Market*

The U.S. stock market posted a total return of 2.8% during the quarter ending June 30. The market's quarterly rise was realized despite a down month in June, its first monthly loss since October 2012. The past six months mark the best first half of a calendar year since 1998. Small cap stocks outperformed large caps during the first half. Value outperformed growth within the large cap space. However, the heightened interest-rate sensitivity of small cap value stocks led to these issues underperforming small-cap growth equities.

The best-performing economic sectors in the second quarter reflect stronger consumer sentiment and increased spending; Consumer Discretionary, Financial and Health Care stocks led other sectors.

U.S. real interest rates spiked during the quarter as investors attempted to parse Fed-speak and quickly re-priced a higher probability of the Fed tapering its quantitative easing programs later this year. Leaving economic impacts aside, the markets' reaction to Chairman Bernanke's comments reveals just how challenging is the Fed's ultimate task of executing a well-timed and smooth exit from the current unprecedented levels of monetary stimulus.

### *International Equity*

The quarter found the European Union still struggling with political uncertainty in Greece as well as lackluster economic expansion and/or recession throughout the region. The announced upcoming wind-down of the U.S. Fed's long-lived programs of accommodative lending sent markets reeling worldwide. Japan's 2013 rally plunged into a volatile bear run after the Nikkei hit a five-year high on May 22; however, Japanese stocks remain among the strongest performers this year. Emerging markets stocks continued to find performance held back by concerns of China's slowing domestic economy while political unrest in Brazil and Turkey late in the quarter weighed on the markets.

### *Domestic Fixed Income*

Bond yields drifted lower in April, with the bellwether 10-year U.S. Treasury hitting a near-term low of 1.66% on May 1. Subsequently, yields climbed sharply higher, with the 10-year closing the quarter at 2.52%, fully 65 basis points higher than its March 28 close. With the end of the Fed's "easy money" policy in sight, interest rate-sensitive assets in general suffered losses. Non-U.S. fixed income performed roughly on par with U.S.-based paper.

### Portfolio Review

The ERS net of fee investment performance as of 6/30/13 is detailed in the following table:

| Maryland-NCPPC ERS | $'000 | Comp % | Calendar YTD % | 1 Year % | 3 Years % | 5 Years % | Inception % |
|---|---|---|---|---|---|---|---|
| **Total Fund (9/30/89)** | **696,779** | **100.0%** | **3.9** | **11.8** | **11.7** | **5.3** | **7.7** |
| *Policy Index/Blended Benchmark* | | | *3.8* | *10.7* | *11.7* | *4.6* | *8.0* |
| **Domestic Equity Comp (9/30/89)** | **205,293** | **29.5%** | **14.1** | **20.1** | **17.7** | **7.0** | **8.6** |
| *Wilshire 5000* | | | *14.0* | *21.1* | *18.5* | *7.2* | *8.8* |
| **International Equity Comp (3/31/95)** | **178,225** | **25.6%** | **1.5** | **18.5** | **10.2** | **-0.9** | **6.1** |
| *Policy Index* | | | *0.0* | *13.6* | *8.5* | *-1.5* | *4.6* |
| *MSCI ACWI ex-U.S.* | | | *0.0* | *13.6* | *8.0* | *-0.8* | *5.7* |
| **Private Equity Comp (3/31/13)** | **883** | **0.1%** | **--** | | | | |
| *Wilshire 5000* | | | *--* | | | | |
| **Fixed Income Comp (9/30/89)** | **198,401** | **28.5%** | **-1.3** | **3.1** | **7.1** | **7.2** | **6.8** |
| *Policy Index* | | | *-3.6* | *0.2* | *6.4* | *6.4* | *6.6* |
| *Barclays Aggregate* | | | *-2.4* | *-0.7* | *3.5* | *5.2* | *6.7* |
| **Real Asset Comp (9/30/07)** | **109,034** | **15.6%** | **-0.7** | **2.3** | **10.1** | **-3.6** | **-2.9** |
| *NCREIF ODCE Index* | | | *6.1* | *11.1* | *13.8* | *-1.1* | *0.5* |
| *U.S. CPI* | | | *1.7* | *1.8* | *2.3* | *1.3* | *2.0* |
| **Managed Cash** | **4,943** | **0.7%** | **--** | **--** | **--** | **--** | **--** |

The chart above shows the calendar YTD, one, three, five and inception-to-date returns for the total fund and each of the underlying composites (Periods greater than one year represent annualized figures). The chart shows the relevant broad market benchmark for the asset classes. As applicable, it also shows the policy index which is a blend of benchmarks used currently and historically; and in some cases represents a weighted benchmark consisting of multiple indexes.

The total fund portfolio return exceeded that of the policy index over the calendar YTD at 3.9%. The total fund portfolio is above the policy index for the one year and five year periods by 1.1% and 0.7%, respectively. The three year return for the total fund portfolio matched that of the policy index at 11.7%. The total portfolio benefited from its equity exposure during the past year as both domestic and international markets rose. The increase in interest rates during the June quarter had a negative impact on portfolio performance as investment-grade markets decreased for the quarter and past year.

Within equity markets, the domestic equity composite trailed the Wilshire 5000 by 1.0%, 0.8%, and 0.2% for one, three, and five year periods. In contrast, the international equity composite exceeded its benchmark, the MSCI ACWI ex-U.S. Index, for most trailing periods shown. The international equity composite exceeded its benchmark by 1.5%, 4.9%, and 2.2% for YTD, one, and three year periods; and nearly matched the benchmark for the five year period.

Within domestic equities, an underperforming small cap growth manager was identified for replacement with a transition to an index strategy occurring just after year-end. There were no changes within the international equity roster of managers. A new allocation to private equity investments was started in an effort to enhance returns over the long-term.

The fixed income composite performed well during that past year (despite an increase in rates in the most recent quarter) and extended a solid performance record that now spans most trailing periods. Restructuring within the fixed income composite has enhanced diversification and created return opportunities. For example, a global, multi-sector approach was added during the year. Additionally, the elimination of long duration mandates benefited performance for much of the past year. Finally, high yield and private credit opportunities were generally strong contributors and accretive to results for the year. In contrast, core-oriented strategies (i.e. those focused on high quality U.S. bonds) struggled and produced low or negative results for the year as it concluded with a sharp rise in rates.

The real assets composite generated a negative return over the most recent quarter, but is positive for the one year and three year periods. This component of the portfolio is expected to provide a meaningful "real return" above inflation over the long-term. During the past year, efforts were made to continue to expand the private real assets exposure with new commitments made in value-added real estate and energy / natural resources. Additionally, a public market real assets strategy was put into place providing exposure to TIPs, commodities, REITs, and natural resource equities.

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,

Michael J. Dudkowski
Managing Director

# Investment Manager Matrix

## As of June 30, 2013

| Investment Manager | Style | Account Balance $(000) | | % of Fund |
|---|---|---|---|---|
| **U.S. Equities** | | | | |
| Artisan Partners, L.P. | Small Cap Value | $ | 24,452 | 3.50% |
| BlackRock Institutional Trust Company | Large Cap | | 63,229 | 9.10% |
| J.P. Morgan Investment Management, Inc. | 130/30 Short Extension | | 27,630 | 4.00% |
| Russell 2000 Growth ETF | Small Cap Growth | | 27,068 | 3.90% |
| RhumbLine Advisers, L.P. | Large Cap | | 62,914 | 9.00% |
| | | $ | 205,293 | 29.50% |
| **International Equities** | | | | |
| Capital Guardian Trust Company | International Equities | $ | 91,165 | 13.10% |
| Earnest Partners, LLC | International Equities | | 87,060 | 12.50% |
| | | $ | 178,225 | 25.60% |
| **Fixed Income** | | | | |
| C.S. McKee, L.P. | Core | $ | 53,945 | 7.75% |
| Eaton Vance Management | Core | | 53,213 | 7.65% |
| Loomis Sayles & Company, L.P. | High Yield | | 32,101 | 4.60% |
| Neuberger Berman Fixed Income, LLC | High Yield | | 21,331 | 3.10% |
| Western Asset Management Company | Global Multi-Sector | | 32,795 | 4.70% |
| W. R. Huff Asset Management | High Yield[1] | | 86 | 0.00% |
| Oaktree PPIP Private Fund, L.P | Public Private Investment Program (PPIP) | | 64 | 0.00% |
| Oaktree Opportunities Fund VII, L.P. | Distressed Opportunities | | 4,866 | 0.70% |
| | | $ | 198,401 | 28.50% |
| **Real Assets** | | | | |
| FLAG Real Estate Partners II, L.P. | Private Real Estate | $ | 4,729 | 0.60% |
| Principal Global Investors, LLC | Private Real Estate | | 41,550 | 6.00% |
| FLAG Energy & Resources Partners II, L.P. | Private Real Assets | | 10,063 | 1.40% |
| State Street Global Advisors | Public Real Assets | | 52,692 | 7.60% |
| | | $ | 109,034 | 15.6% |
| **Private Equity** | | | | |
| Wilshire Private Markets | Private Equity | $ | 883 | 0.10% |
| **Cash** | | $ | 4,943 | 0.70% |
| **TOTAL** | | $ | 696,779 [2] | 100% |

[1] Maintains Adelphia and Century Securities Only

[2] Net of Accrued Income on Investments and Investments Payable

# List of Largest Held Domestic Equities

## As of June 30, 2013

| Equity Income Securities | No. of Shares | | Fair Value |
|---|---|---|---|
| CORE LABORATORIES NV NLG0.03 | 25,000 | $ | 3,791,500 |
| ADR ARM HLDS PLC SPONSORED ISINUS0420681068 | 89,907 | | 3,252,835 |
| DENSO CORP NPV | 65,000 | | 3,052,549 |
| SHIRE PLC ORD GBP0.05 | 79,500 | | 2,514,044 |
| GETINGE AB SER'B'NPV | 82,700 | | 2,497,131 |
| ROCHE HLDGS AG GENUSSCHEINE NPV | 9,727 | | 2,415,944 |
| DIAGEO ORD PLC | 81,100 | | 2,312,482 |
| DNB ASA NOK10 | 160,300 | | 2,308,921 |
| ICON PLC COM | 61,100 | | 2,164,773 |
| AMADEUS IT HLDGS EUR0.01 | 67,648 | | 2,159,177 |
| SCHOELLER BLECKMAN EUR1 (BR) | 20,900 | | 2,126,894 |
| EVEREST RE GROUP COM | 16,500 | | 2,116,290 |
| SECOM CO NPV | 36,400 | | 1,978,759 |
| ORIENT O/SEAS INTL USD0.10 | 306,000 | | 1,976,522 |
| ADR NOVARTIS AG | 27,660 | | 1,955,839 |
| TRANSOCEAN LTD | 34,500 | | 1,654,275 |
| HYUNDAI MOBIS KRW5000 | 6,726 | | 1,607,809 |
| ADR ADVANCED SEMICONDUCTOR ENGR INC SPONSORED ADR | 387,240 | | 1,572,194 |
| ADR ICICI BK LTD | 40,600 | | 1,552,950 |
| CARNIVAL CORP COM PAIRED | 45,286 | | 1,552,857 |

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, 2013

| Fixed Income Securities | Par | | Fair Value |
|---|---|---|---|
| CF WESTN ASST GBL MULTI-SECTOR LLC FD | 2,230,987 | $ | 32,766,500 |
| CF NEUBERGER BERMAN HI YEILD BD LLC FD | 590,806 | | 21,331,066 |
| MULTIPLE INT RATE 1.75% DUE 05-15-2022 | 7,870,000 | | 8,126,011 |
| FNMA 6 DUE 04-18-2036 REG | 3,345,000 | | 3,781,091 |
| UNITED STATES TREAS NTS DTD 00040 4.25% DUE 11-15-2013 REG | 2,580,000 | | 2,619,608 |
| USA TREASURY NTS 0.5% TIPS 15/04/15 USD1000 04-15-2015 | 2,360,000 | | 2,595,656 |
| FFCB FFCB 01-17-2017 | 1,625,000 | | 1,626,463 |
| UNITED STATES TREAS NTS DTD 00084 4% DUE02-15-2015 REG | 1,470,000 | | 1,558,085 |
| FEDERAL HOME LN MTG CORP 3.0%07-31-2019 | 1,547,000 | | 1,549,899 |
| FNMA POOL #MA1438 2.5% 05-01-2028 BEO | 1,088,970 | | 1,096,658 |
| FEDERAL HOME LN MTG CORP TRANCHE # TR 00604 3 08-08-2019 | 1,034,000 | | 1,036,480 |
| FNMA POOL #890516 5% 02-01-2039 BEO | 955,478 | | 1,033,645 |
| FNMA POOL #AD3072 4.5% 04-01-2040 BEO | 965,591 | | 1,023,054 |
| UNITED STATES OF AMER TREAS BONDS 0.625%TIPS 02-15-2043 USD1000 | 1,110,000 | | 944,263 |
| FEDERAL NATL MTG ASSN GTD MTG POOL #AK7347 3.5% 03-01-2042 BEO | 858,151 | | 872,311 |
| SPRINT CAP CORP 6.875% DUE 11-15-2028 | 840,000 | | 806,400 |
| FEDERAL NATL MTG ASSN GTD MTG POOL #AL2897 3.5% 01-01-2043 BEO | 786,351 | | 799,329 |
| LUCENT 6.45% DUE 03-15-2029 | 950,000 | | 719,625 |
| WAL-MART STORES 6.5% DUE 08-15-2037 | 537,000 | | 678,545 |
| QUEBEC PROV CDA GLOBAL NT 2.625% DUE 02-13-2023 BEO | 695,000 | | 651,841 |

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

# Schedule of Broker Commissions

## As of June 30, 2013

| Broker | | Total Commissions |
|---|---|---|
| BANCO JP MORGAN S.A. | $ | 3,546 |
| BAYPOINT TRADING LLC | | 242 |
| BLAIR, WILLIAM & CO | | 1,000 |
| BNY BROKERAGE INC | | 5,674 |
| BNY CONVERGEX EXECUTION SOLUTIONS | | 6,302 |
| CAPITAL INSTITUTIONAL SERV NEW YORK | | 3,859 |
| CITIGROUP GLOBAL MARKETS INC. | | 1,703 |
| CITIGROUP GLOBAL MARKETS LIMITED | | 746 |
| COWEN LLC | | 262 |
| DEUTSCHE BANK SECURITIES INC. | | 8,562 |
| DONGWON SECURITIES | | 240 |
| FIRST ANALYSIS SECURITIES CORP | | 1,377 |
| FRIEDMAN BILLING AND RAMSEY | | 377 |
| GOLDMAN, SACHS AND CO. | | 500 |
| G-TRADE SERVICES LLC | | 6,032 |
| HARRIS NESBITT CORP | | 724 |
| HIBERNIA SOUTHCOAST CAPITAL INC. | | 296 |
| J.P. MORGAN CLEARING CORP. | | 519 |
| J.P. MORGAN SECURITIES PLC | | 5,417 |
| JEFFERIES AND COMPANY, INC. | | 2,603 |
| JMP SECURITIES | | 985 |
| JOHNSON RICE & CO. | | 666 |
| JONESTRADING INST SERV | | 567 |
| JPMORGAN SECURITIES (ASIA PACIFIC) | | 4,311 |
| KEEFE BRUYETTE AND WOODS INC. | | 372 |
| KNIGHT EQUITY MARKETS LP | | 3,854 |
| LAZARD FRERES & CO. | | 1,129 |
| LIQUIDNET INC | | 4,034 |
| LOOP CAPITAL MARKETS LLC | | 304 |
| MERRILL LYNCH AND CO., INC. | | 4,820 |
| MORGAN STANLEY | | 605 |
| MORGAN STANLEY AND CO., LLC | | 11,793 |
| NEEDHAM & COMPANY | | 338 |
| OPPENHEIMER AND COMPANY | | 7,718 |
| PAVILION GLOBAL MARKETS LTD | | 2,177 |
| PERSHING LLC | | 3,828 |
| PICKERING ENERGY PARTNERS INC | | 809 |
| PIPER JAFFRAY INC | | 1,823 |
| RAYMOND JAMES AND ASSOCIATES | | 1,111 |
| ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA | | 1,950 |
| SANFORD C. BERNSTEIN AND CO., LLC | | 7,104 |
| SCARSDALE EQUITIES LLC | | 351 |
| SCOTIA MCLEOD INC | | 352 |
| SIDOTI & COMPANY LLC | | 1,759 |
| STEPHENS INC | | 1,738 |
| STERNE AGEE AND LEACH INC | | 567 |
| STIFEL NICOLAUS & CO INCORORATED | | 1,108 |
| STIFEL NICOLAUS AND COMPAN | | 1,384 |
| SUNTRUST ROBINSON HUMPHREY, INC. | | 1,553 |
| THINKEQUITY PARTNERS LLC | | 604 |
| WEDBUSH MORGAN SECURITIES, INC | | 224 |
| WUNDERLICH SECURITIES INC | | 634 |

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

# ACTUARIAL SECTION

# Actuary's Certification Letter

August 30, 2013

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, 2012***

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, 2012 and sets forth the recommended contribution according to the System's funding policy and Plan Amendments effective July 1, 2012.

The valuation was performed on the basis of employee census data as of July 1, 2012 and investment fund data as of July 1, 2012, submitted by the Retirement System staff to Boomershine Consulting Group (BCG). BCG 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, 2012 Valuation, M-NCPPC retained BCG to perform valuations of the System.

The Report was prepared in accordance with generally accepted actuarial principles and practices. The actuarial assumptions used in the calculations are individually reasonable and reasonable in the aggregate. The actuarial assumptions and methods used for the funding calculations are in accordance with the parameters set for the disclosures by GASB Statement No. 25.

The schedules below were prepared by BCG and included in the Actuarial Section of the System's Comprehensive Annual Financial Report are the following:

- Summary of Actuarial Assumptions and Methods
- Required Supplementary Information Under GASB 25*
- Solvency Test*

Two additional schedules presented in the Financial Section of the System's Comprehensive Annual Financial Report included data prepared by BCG. The amounts in the Schedule of Employer Contributions are based on BCG's valuation results for the fiscal year ending June 30, 2013; Aon Hewitt's valuation results for the fiscal years ending June 30, 2009 through June 30, 2012 with modifications by BCG for 2012 The amounts for earlier years are from the actuarial valuation reports of the System's prior actuary. The amounts in the Schedule of Funding Progress are based on BCG's results for the July 1, 2012 valuation; Aon Hewitt's results for the valuation dates July 1, 2007 through July 1, 2011, with modifications by BCG for 2011. The amounts for the earlier valuation dates are from the actuarial valuation reports of the System's prior actuary.

## Funding Recommendation and Change in Plan Costs

A contribution of $26,744,487 is the recommended total to meet the System's funding objectives calculated as of July 1, 2012. Including 7.5% interest for one year, the contribution is $28,750,323 payable at July 1, 2013. This contribution represents 22.1% of the 2012 covered payroll. Last year's revised recommended contribution was $22,145,170. With interest at 7.5% for one year, the contribution was $23,806,058, or 17.9% of the 2011 covered payroll.

A breakdown of the contribution payable July 1, 2013 between Park Police and Non-Police employees is shown below:

| | **7/1/2013 Amount** | **2012 Payroll** | **% of Payroll** |
|---|---|---|---|
| Non-Police | $23,630,432 | $116,927,658 | 20.21% |
| Park Police | 5,119,891 | 12,983,936 | 39.43% |
| **Total** | **$28,750,323** | **$129,911,593** | **22.13%** |

* The amounts in these schedules are based on BCG's results for the valuation dates July 1, 2011 (with revision to Aon Hewitt's amounts) and later, and Aon Hewitt's results for the valuation dates July 1, 2007 through July 1, 2010. The amounts for the earlier valuation dates are from the actuarial valuation reports of the System's prior actuary.

The Net Employer Normal Cost payable at the beginning of the year increased from $10,233,697 (7.7% of payroll) to $10,432,377 (8.03% of payroll). The amortization of the Unfunded Actuarial Accrued Liability increased from $11,911,473 to $16,312,110 primarily due to an actuarial loss. The breakdown of the assumption change, plan change and the loss are as follows:

| | 7/1/2012 Amount | % of Liability/Assets |
|---|---|---|
| **NET LIABILITY (GAIN)/LOSS** | | |
| Salary Increases Less than Expected | ($8,514,908) | (1.06%) |
| New Hires | $2,288,322 | 0.29% |
| New Terminations and Retirements | $1,374,558 | 0.17% |
| COLA Increases More than Expected | 450,854 | 0.06% |
| Other Experience | 4,641,170 | 0.58% |
| Total Liability (Gain)/Loss | $239,996 | 0.03% |
| **ACTUARIAL ASSET VALUE (GAIN)/LOSS** | $41,518,324 | 6.29% |
| **NET ACTUARIAL (GAIN)/LOSS** | $41,758,320 | |

## 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 1.3% 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 1.9%, which is less than the 7.50% return assumption. The total Actuarial Value of Assets as of July 1, 2012 is $660,231,611.

The total Market Value of Assets as of July 1, 2012 is $654,008,719. The return on the Market Value of Assets was 2.2% 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 0.4%, which is less than the 7.50% return assumption.

## Funded Status/GASB

The total Pension Benefit Obligation under GASB 25 as of July 1, 2012 is $802,077,365, compared to the Actuarial Value of Assets of $660,231,611. On this basis, the funded ratio is 82.3%. The value of Accumulated Plan Benefits is $749,924,799 resulting in a funded ratio of 87.2%, compared to the Market Value of Assets of $654,008,719.

The Actuaries whose signatures appear below 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.

BCG'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 BCG's work.

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

Sincerely,

David S. Boomershine, EA, MAAA, FCA, MSPA
Senior Actuary and President

Sunita Bhatia, EA, ASA, ACA, MAAA
Senior Consultant

# Actuarial Assumptions and Valuation Methods

**Actuarial Cost Method**

The Entry Age Normal Actuarial Cost Method divides the cost of funding benefits into two parts: the normal cost and the actuarial accrued liability.

**Asset Valuation**

Assets are valued using a five-year asset smoothing method. Under this method, the difference between expected asset return and actual asset return is recognized 20% per year over a five-year period. The asset value includes a receivable for any contributions made with respect to the prior actuarial valuation by the time this valuation was prepared.

**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.

**Valuation Date**

July 1, 2012

**Investment Rate of Return**

7.5% compounded annually.

**Salary Increases**

2.0% per year plus additional merit increases for 2011-2013 and 3.0% per year plus additional merit increases for 2014 and later 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 |

**Mortality**

Healthy Lives

RP-2000 Projected to 2010 and Generational Method applied using Scale AA factors after 2010.

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 |

# Actuarial Assumptions and Valuation Methods (continued)

**Termination of Employment**

Sample rates:

| Years of Service | Park Police | Non-Police |
|---|---|---|
| 0 | .070 | .110 |
| 5 | .030 | .050 |
| 10 | .025 | .030 |
| 15 | .000 | .025 |
| 20 | .000 | .015 |
| 25 | .000 | .010 |
| 30 | .000 | .005 |
| 35 | .000 | .000 |

**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 | 25 |
| 30 | 100 |

| Years of Service | Non Police [2] % |
|---|---|
| 15 - 19 | 5 |
| 20 - 23 | 10 |
| 24 - 25 | 15 |
| 26 - 29 | 10 |

# Actuarial Assumptions and Valuation Methods (continued)

| | |
|---|---|
| **Marriage** | 90% of male participants and 50% of female participants are assumed to be married with wives assumed to be three years younger and husbands three years older than participant. |
| **Expenses** | The assumed interest rate is deemed to be net of investment expenses.<br><br>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 for benefits accrued until July 1, 2012, 2.5% compounded annually thereafter. |
| **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. |

[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 except for at 22 years of service they are assumed to retire at a rate of 25%.

[2] Non-police participants who have reached their normal retirement age are assumed to retire at a rate of 10% per year.  100% retirement is assumed at age 70.

# Required Supplementary Information Under GASB 25

## Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) $ | Actuarial Accrued Liability (AAL) Entry Age (b) $ | Unfunded AAL (UAAL) (b) - (a) $ | Funded Ratio (a) / (b) % | Covered Payroll (c) $ | UAAL as a % of Covered Payroll [(b)- (a)] / (c) % |
|---|---|---|---|---|---|---|
| 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 |
| 7/1/2009 | 541,519,199 | 726,000,351 | 184,481,152 | 74.6 | 142,590,713 | 129.4 |
| 7/1/2010 | 609,902,953 | 763,860,139 | 153,957,186 | 79.8 | 140,407,414 | 109.7 |
| 7/1/2011[1] | 659,362,107 | 761,343,000 | 101,980,893 | 86.6 | 132,490,722 | 77.0 |
| 7/1/2012[2] | 660,231,611 | 802,077,365 | 141,845,754 | 82.3 | 129,911,593 | 109.2 |

[1] The value of plan assets includes a contribution of $32,182,287 made July 1, 2011 for the 2012 fiscal year which was based on the July 1, 2010 valuation report.

[2] The value of plan assets includes a contribution of $23,806,058 made July 1, 2012 for the 2013 fiscal year which was based on the revisions made by BCG to the original July 1, 2011 valuation report submitted by Aon Hewitt.

# Schedule of Active Member Valuation Data

| Valuation Date | Total Number of Members | Annual Salary | Annual Average Pay | % Increase/Decrease in Average Pay |
|---|---|---|---|---|
| **General Employees** | | | | |
| 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 |
| 7/1/2009 | 2,078 | 128,800,404 | 61,987 | (0.3) |
| 7/1/2010 | 2,009 | 126,594,778 | 63,014 | 1.7 |
| 7/1/2011 | 1,898 | 119,358,603 | 62,887 | (0.2) |
| 7/1/2012 | 1,866 | 116,927,658 | 62,662 | (0.4) |
| **Park Police** | | | | |
| 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 |
| 7/1/2009 | 194 | 13,790,309 | 71,084 | 0.7 |
| 7/1/2010 | 194 | 13,812,636 | 71,199 | 0.2 |
| 7/1/2011 | 187 | 13,132,119 | 70,225 | (1.4) |
| 7/1/2012 | 186 | 12,983,936 | 69,806 | (0.6) |
| **Total** | | | | |
| 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 |
| 7/1/2009 | 2,272 | 142,590,713 | 62,760 | (0.3) |
| 7/1/2010 | 2,203 | 140,407,414 | 63,735 | 1.6 |
| 7/1/2011 | 2,085 | 132,490,722 | 63,545 | (0.3) |
| 7/1/2012 | 2,052 | 129,911,593 | 63,310 | (0.4) |

# Schedule of Retirees and Beneficiaries Added to and Removed from the Rolls

| | Added to rolls | | Removed from rolls | | Rolls end of year | | | |
|---|---|---|---|---|---|---|---|---|
| As of date | No. | Annual allowances | No. | Annual allowances | No. | Annual allowances | % Increase in annual allowances | Average annual allowance |
| 7/1/2012 | 68 | $ 1,963,919 | 28 | $ 483,565 | 1,176 | $ 35,310,586 | 7.00% | $ 30,026 |
| 7/1/2011 | 96 | $ 3,425,855 | 27 | $ 528,833 | 1,136 | $ 32,999,162 | 10.02% | $ 28,691 |
| 7/1/2010 | 102 | $ 3,523,036 | 12 | $ 247,267 | 1,067 | $ 29,992,947 | 11.47% | $ 28,162 |
| 7/1/2009 | 76 | $ 2,378,257 | 23 | $ 311,465 | 977 | $ 26,905,810 | 11.45% | $ 27,539 |
| 7/1/2008 | NA | NA | NA | NA | 924 | $ 24,141,406 | NA | $ 26,184 [1] |

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 four years only. Prior to 2008 the information was not maintained in this format and is not available for comparative purposes.

[1] The average annual allowance results for 7/1/2008 uses an end of the year count of 922, because there are two zero balance deceased benefits in pending status, with no current or future benefits attached.

# 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 | | |
| 7/1/2003 | $ 46,965,293 | $ 191,521,960 | $ 196,897,895 | $ 506,098,931 | 100 | 100 | 136.4 |
| 7/1/2004 | 48,236,859 | 210,016,466 | 211,090,960 | 507,413,323 | 100 | 100 | 118 |
| 7/1/2005 | 50,307,768 | 234,867,535 | 222,217,806 | 521,369,236 | 100 | 100 | 106.3 |
| 7/1/2006 | 47,011,118 | 268,335,133 | 229,402,012 | 552,432,436 | 100 | 100 | 137.5 |
| 7/1/2007 | 52,039,017 | 296,186,895 | 267,363,043 | 600,285,246 | 100 | 100 | 94.3 |
| 7/1/2008 | 53,665,183 | 327,978,867 | 280,580,584 | 633,699,751 | 100 | 100 | 89.8 |
| 7/1/2009 | 57,678,803 | 362,388,083 | 305,933,465 | 541,519,199 | 100 | 100 | 39.71[1] |
| 7/1/2010 | 58,059,065 | 408,689,438 | 297,111,636 | 609,902,953 | 100 | 100 | 48.2 |
| 7/1/2011 | 57,659,169 | 461,475,412 | 242,208,419 | 659,362,107 | 100 | 100 | 57.9 |
| 7/1/2012 | 61,843,880 | 466,927,776 | 273,305,709 | 660,231,611 | 100 | 100 | 48.1 |

[1] Note: There was a large drop in assets from 7/1/2008 to 7/1/2009 while liabilities continued to grow. Because the solvency test first fully funds member contributions and retirees and beneficiaries, the active percentage has decreased by a larger percentage because the full asset loss is reflected in this percentage.

# STATISTICAL SECTION

# Statistical Section Narrative

To assist readers, the Statistical Section of this CAFR 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 Fiduciary Net Position** shows the historical combined effects of the additions and deductions of fiduciary net position over the 10-year period ended June 30, 2013 as well as detailing the ERS' largest source of revenue capacity - investment income through June 30, 2007 and again in June 30, 2010 through 2013. Investment loss for the years ended June 30, 2008 and 2009 assists in providing a context on how the ERS' financial position has changed over time.

The **Schedule of Benefit and Refund Deductions From Fiduciary Net Position By Type** provides the general information of payment trends of annuity data by type and refund of contributions for the 10-year period ended June 30, 2013.

The **Schedule of Average Benefit Payments** provides the summary of statistics relating to the average annuitant's receipt of annuities over the five-year period ended June 30, 2013.

# Schedule of Changes in Fiduciary Net Position

## For Years Ended June 30
## (dollars in thousands)

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ADDITIONS** | | | | | | | | | | |
| Employer contributions | $ 23,806 | $ 32,182 | $ 25,633 | $ 17,615 | $ 14,933 | $ 10,561 | $ 9,825 | $ 8,337 | $ 5,052 | $ 1,203 |
| Member contributions | 5,355 | 4,396 | 4,698 | 5,136 | 4,893 | 4,522 | 4,402 | 3,898 | 3,828 | 3,747 |
| Investment income (loss)(net of expenses) | 72,802 | 14,100 | 111,044 | 63,460 | (119,445) | (55,310) | 90,748 | 40,529 | 35,595 | 63,533 |
| **Total additions** | 101,963 | 50,678 | 141,375 | 86,211 | (99,619) | (40,227) | 104,975 | 52,764 | 44,475 | 68,483 |
| **DEDUCTIONS** | | | | | | | | | | |
| Benefit payments | 36,263 | 33,833 | 32,775 | 27,567 | 25,671 | 23,636 | 21,319 | 19,129 | 16,670 | 15,258 |
| Refunds | 369 | 317 | 359 | 335 | 249 | 382 | 489 | 360 | 419 | 601 |
| Administrative expenses | 1,565 | 1,453 | 1,366 | 1,323 | 1,359 | 1,250 | 1,182 | 1,078 | 1,054 | 1,059 |
| **Total deductions** | 38,197 | 35,603 | 34,500 | 29,225 | 27,279 | 25,268 | 22,990 | 20,567 | 18,143 | 16,918 |
| **CHANGE IN FIDUCIARY NET POSITION** | $ 63,766 | $ 15,075 | $ 106,875 | $ 56,986 | $ (126,898) | $ (65,495) | $ 81,985 | $ 32,197 | $ 26,332 | $ 51,565 |

# Schedule of Benefit and Refund Deductions From Fiduciary Net position by Type

For Years Ended June 30
(dollars in thousands)

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Type of Benefit** | | | | | | | | | | |
| Retirees | $ 32,618 | $ 30,547 | $ 29,225 | $ 24,289 | $ 22,515 | $ 20,505 | $ 18,640 | $ 16,580 | $ 14,576 | $ 13,135 |
| Survivors | 3,555 | 3,199 | 3,464 | 3,192 | 3,072 | 3,050 | 2,600 | 2,472 | 2,020 | 2,051 |
| Disability benefits | 90 | 87 | 86 | 86 | 83 | 81 | 79 | 77 | 74 | 72 |
| **Total benefits** | $ 36,263 | $ 33,833 | $ 32,775 | $ 27,567 | $ 25,670 | $ 23,636 | $ 21,319 | $ 19,129 | $ 16,670 | $ 15,258 |
| **Refund of contributions** | $ 369 | $ 317 | $ 359 | $ 335 | $ 249 | $ 382 | $ 489 | $ 360 | $ 419 | $ 601 |

# Schedule of Average Benefit Payments[1]

**As of July 1, 2012**

| | Years of Credited Service ---> 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | >30 | Total |
|---|---|---|---|---|---|---|---|---|
| Number of Retirees and Survivors | 45 | 137 | 129 | 166 | 231 | 250 | 218 | 1176 |
| Average monthly benefit | $464 | $701 | $1,035 | $1,615 | $2,612 | $3,405 | $4,450 | $2,508 |
| Average final average salary | $38,126 | $45,665 | $46,972 | $54,389 | $64,336 | $65,415 | $71,397 | $59,131 |
| Average years of service | 3.6 | 8.2 | 13.0 | 18.1 | 23.1 | 28.7 | 33.6 | 21.9 |

**As of July 1, 2011**

| | Years of Credited Service ---> 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | >30 | Total |
|---|---|---|---|---|---|---|---|---|
| Number of Retirees and Survivors | 44 | 129 | 121 | 160 | 223 | 246 | 213 | 1136 |
| Average monthly benefit | $667 | $655 | $994 | $1,604 | $2,489 | $3,293 | $4,218 | $2,431 |
| Average final average salary | $36,863 | $43,873 | $44,960 | $53,170 | $62,126 | $63,845 | $69,781 | $57,576 |
| Average years of service | 3.5 | 8.1 | 13.0 | 18.1 | 23.1 | 28.7 | 33.5 | 22.0 |

**As of July 1, 2010**

| | Years of Credited Service ---> 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | >30 | Total |
|---|---|---|---|---|---|---|---|---|
| Number of Retirees & Survivors | 42 | 123 | 115 | 155 | 199 | 233 | 200 | 1067 |
| Average monthly benefit | $390 | $635 | $950 | $1,567 | $2,429 | $3,191 | $4,137 | $2,347 |
| Average final average salary | $31,968 | $42,356 | $44,112 | $51,773 | $58,916 | $61,395 | $67,461 | $55,213 |
| Average years of service | 3.6 | 8.1 | 13.0 | 18.1 | 23.1 | 28.6 | 33.5 | 21.9 |

**As of July 1, 2009**

| | Years of Credited Service ---> 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | >30 | Total |
|---|---|---|---|---|---|---|---|---|
| Number of Retirees & Survivors | 43 | 110 | 111 | 151 | 185 | 203 | 174 | 977 |
| Average monthly benefit | $408 | $645 | $944 | $1,550 | $2,423 | $3,137 | $4,191 | $2,294 |
| Average final average salary | $32,038 | $41,515 | $42,935 | $49,951 | $56,984 | $57,880 | $65,423 | $52,791 |
| Average years of service | 3.6 | 8.1 | 12.9 | 18.1 | 23.1 | 28.6 | 33.4 | 21.6 |

**As of July 1, 2008**

| | Years of Credited Service ---> 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | >30 | Total |
|---|---|---|---|---|---|---|---|---|
| Number of Retirees & 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 |

[1] Data for 2002-2007 not readily available.

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