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

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2014 and June 30, 2013

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2014 and June 30, 2013

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

MISSION STATEMENT

The Mission of the Maryland-National Capital Park and Planning Commission Employees' Retirement System (ERS) is to prudently manage, protect, diversify, and administer the funds for the sole benefit of the members and beneficiaries to ensure sufficient assets are available to pay the promised benefits.

OUR CORE VALUES

Quality Customer Service

•

Accountability and Transparency

•

Professionalism and Respect

•

Trustworthiness and Stewardship

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and June 30, 2013

TABLE OF CONTENTS

INTRODUCTORY Section

FINANCIAL Section

TABLE OF CONTENTS (Continued)

INVESTMENT Section

ACTUARIAL Section

STATISTICAL Section

INTRODUCTORY
Section

LETTER OF TRANSMITTAL

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

October 6, 2014

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, 2013. 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 2013. 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 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, 2014, the ERS fund returned 15.2% versus its policy benchmark of 16.1%. The ERS fund return was 9.6% for the three-years ended June 30, 2014 and 13.0% for the five-years ended June 30, 2014 versus the policy index which returned 10.3% and 12.7%, respectively. Refer to the Investment Consultant's Report on page 51 for a market overview with investment results by asset class and a portfolio review highlighting the ERS' restructuring activities.

Initiatives & Accomplishments

In FY2014, 17% of active employees were eligible for normal retirement and approximately 36% are eligible for normal retirement within the next 5 fiscal years. As a result, ERS staff continues to encourage and promote lifelong retirement planning through workshops, publications, and services offered to all members of the ERS.

Last year the Board made its first move in more than a decade to reduce the investment return assumption. Given the downward trend of investment return assumptions across the country, the Board agreed a move from 7.5% to 7.4% was prudent and agreed to annually review the assumption and make incremental adjustments, as necessary. Based on discussions with the investment consultant and actuary, projections for the markets, and expected returns for the ERS' portfolio, the Board reopened discussion of the investment return assumption in FY2014 and approved a reduction from 7.4% to 7.3% effective for the July 1, 2014 actuarial valuation.

Additional initiatives and accomplishments for FY2014 included engaging an investment manager for a dedicated bank loan mandate; rebalancing the core fixed income portfolio to allow for the bank loan mandate; approving an additional $10 million commitment to FLAG Real Estate Partners III, L.P. for a total commitment of $20 million; converting the Loomis Sayles high yield fixed income separate account to the Loomis Sayles High Yield Full Discretion Trust; adopting an open 15-year amortization approach; revising the Statement of Investment Policy; approving a Plan Document Restatement effective January 1, 2014; and applying for an updated IRS Determination Letter.

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 2014 and 2013, the gains, including investment expense, were $107,897,795 and $72,801,688, respectively. Total contributions increased from $29,160,962 in 2013 to $34,163,918 in 2014. The increase can be attributed primarily to a loss on the actuarial value of assets. Total deductions increased by 4.4% from $38,197,154 in 2013 to $39,894,283 in 2014. Pension benefits and refunds account for $38,407,073 and the remainder of $1,487,210 was attributed to administrative expenses (see page 23).

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 69). This measure 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, 2013, indicated that the funded ratio of the actuarial value of assets to the actuarial accrued liability for benefits was 83.1%. As of July 1, 2013, the actuarial value of assets is $690,539,998 and the actuarial accrued liability is $831,199,592.

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, 2013

Jeffrey R. Emer

Executive Director/CEO

Public Pension Coordinating Council

Recognition Award for Administration 2013

Presented to

The Maryland-National Capital Park and 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, appointed by the Commission.
- The Commission's Executive Director, Ex-Officio, concurrent with tenure in office.
- The Commission's Secretary-Treasurer, Ex-Officio, concurrent with tenure in office.
- Three Open Trustees, one each from Montgomery and Prince George's counties and one from the Bi-County office (effective July 2003), as a result of an election conducted by the ERS.
- Two Public Members, one each from Montgomery and Prince George's counties, appointed by the Commission.
- Two Represented Trustees, one each from the Municipal and County Government Employees' Organization (MCGEO) and the Fraternal Order of Police (FOP). The MCGEO Representative is selected by the Chief Executive Officer of MCGEO and the FOP Representative is selected pursuant to an internal election process established by the FOP. Represented trustees continue in office until replaced by their successors.

Trustees serve for three-year terms. Trustees elect a chairman and vice chairman to serve for a two-year term. 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. Announcements regarding the Board of Trustees are posted on the ERS' website http://ers.mncppc.org and in the Commission's monthly newsletter, *Update*.

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

Note: For the Investment Manager Directory see page 50 and for the Schedule of Broker Commissions see page 60.

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.CLAconnect.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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System'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, 2014 and 2013, 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.

NEXIA INTERNATIONAL An independent member of Nexia International

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Employer Contributions, Schedule of Money-Weighted Rate of Returns, and the Notes to Required Supplementary Information (collectively the required supplementary information), as listed in the Table of Contents, 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 October 6, 2014, 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 System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 6, 2014

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, 2014, 2013 and 2012. 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 $796.1 million and $694.0 million at June 30, 2014 and 2013, respectively. Of this amount, $796.1 million and $693.9 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 2014 and 2013 total fiduciary net position held in trust for pension benefits increased by $102.2 million (14.7%) and $63.8 million (10.1%) respectively, due primarily to investment gains.

- The ERS' Net Pension Liability as of June 30, 2014 is $73,296,330. The ratio of the Fiduciary Net Position to the Total Pension Liability is 91.6%.

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 Changes in Net Pension Liability and Related Ratios, a Schedule of Employer Contributions, and a Schedule of Money-Weighted Rate of Returns which are additional supplementary information required by the Governmental Accounting Standards Board.

The Statements of Fiduciary Net Position presents information on all of the ERS' assets and liabilities, with the difference between the two reported as net position restricted for pensions. 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 Statements 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 statements 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 Changes in Net Pension Liability and Related Ratios, Employer Contributions and Money-Weighted Rate of Returns present historical trend information about the ERS. This information is intended to improve financial reporting for decision making, accountability and transparency.

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, 2014	June 30, 2013	June 30, 2012
Assets			
Current assets	$ 846,622	$ 777,695	$ 706,366
Other assets	22	65	76
Total assets	846,644	777,760	706,442
Liabilities			
Total liabilities	50,509	83,792	76,239
Net position restricted for pensions	$ 796,136	$ 693,968	$ 630,203

	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
Changes in fiduciary net position			
Total additions, net	$ 142,062	$ 101,963	$ 50,678
Total deductions, net	39,894	38,197	35,603
Net increase in net position	$ 102,168	$ 63,766	$ 15,075

Current Assets

The largest component of fiduciary net position is the ERS' investments. At June 30, 2014, 2013 and 2012, cash and investments amounted to approximately $845.3 million, $776.2 million and $704.7 million, respectively. In 2014, 2013 and 2012, the increase in fiduciary net position resulted primarily from a net gain from investing activities. Total receivables of $1.4 million, $1.5 million and $1.7 million represent accrued income on investments and receivables of member contributions at June 30, 2014, 2013 and 2012, respectively.

Liabilities

Liabilities are primarily comprised of amounts payable on securities lending transactions and investments payable. Securities lending liabilities amounted to approximately $48.7 million, $82.2 million and $66.0 million at June 30, 2014, 2013 and 2012, 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 $.8 million, $.3 million and $9.4 million at June 30, 2014, 2013 and 2012, respectively.

Financial Analysis of the System (continued)

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, 2014, 2013 and 2012 (in millions):

	June 30, 2014	June 30, 2013	June 30, 2012
Employer contributions	$ 28.8	$ 23.8	$ 32.2
Member contributions	5.4	5.4	4.4
Net investment income	107.9	72.8	14.1
Net additions	$ 142.1	$ 102.0	$ 50.7

Contributions

During 2014, the actuarial recommended employer contributions to the ERS increased from 18.0% ($23,806,058) to 22.1% ($28,750,323) of covered payroll. The increase can be attributed primarily to losses on the actuarial value of assets. 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, 2012 through June 30, 2013, investment performance on the actuarial value of assets was 5.34%. Over the five-year period ending on the valuation date, July 1, 2013, the return on the actuarial value of assets was 1.58%.

Net Investment Income

The net investment income for the ERS totaled $107.9 million, $72.8 million and $14.1 million for 2014, 2013 and 2012, respectively, that was comprised of $97.9 million, $57.5 million and $3.0 million in net appreciation in fair value of investments, including investment advisory and management fees, $9.8 million, $15.1 million and $10.7 million in dividends and interest income, and $.3 million, $.2 million and $.2 million from securities lending activities for 2014, 2013 and 2012, 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 2014, 2013 and 2012 totaled $39.9 million, $38.2 million and $35.6 million, respectively. Such amounts represent increases of 4.4% and 7.3% over 2013 and 2012, respectively. At the beginning of fiscal year 2014, eligible retirees received a 2.1% cost-of-living adjustment which contributed to the 4.4% increase in deductions from 2013 to 2014**.** The following table reflects the ERS' deductions by type in 2014, 2013, 2012 (in thousands):

	2014	2013	2012
Benefits	$ 38,170	$ 36,263	$ 33,833
Refunds	237	369	317
Administrative expenses	1,487	1,565	1,453
Total deductions	$ 39,894	$ 38,197	$ 35,603

Management's Discussion & Analysis

Financial Analysis of the System (continued)

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, 2014 and 2013

	2014	2013
INVESTMENTS AT FAIR VALUE (note 3)		
Fixed income securities	$ 161,226,330	$ 166,832,044
International fixed income securities	8,978,006	11,125,113
Venture capital/alternative investments	56,777,040	18,339,236
Corporate stock	385,730,896	348,097,649
International corporate stock	90,880,351	77,995,456
Real estate	54,261,714	46,264,851
Short term investments	39,539,970	27,380,462
Securities lending short term collateral investment pool	47,700,258	80,072,342
Total investments at fair value	845,094,565	776,107,153
CASH	176,759	130,873
RECEIVABLES		
Accounts receivable-member contributions	345,851	299,060
Accrued income on investments	1,005,412	1,157,838
Total receivables	1,351,263	1,456,898
OTHER ASSETS		
Prepaid expenses	14,902	46,873
Equipment at cost, net of accumulated depreciation of $247,433 and $235,763	7,003	18,673
Total other assets	21,905	65,546
Total assets	846,644,492	777,760,470
LIABILITIES		
Investments payable	760,563	298,713
Accrued expenses	678,995	860,975
Refunds payable	328,799	391,579
Payable for securities lending collateral	48,740,548	82,241,046
Total liabilities	50,508,905	83,792,313
NET POSITION RESTRICTED FOR PENSIONS	$ 796,135,587	$ 693,968,157

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

Statements of Changes in Fiduciary Net position

For the Years Ended June 30, 2014 and 2013

		2014		2013
ADDITIONS				
Contributions (note 2)				
Employer	$	28,750,323	$	23,806,058
Employees		5,413,595		5,354,904
Total contributions		34,163,918		29,160,962
Investment income				
Interest		9,253,234		15,008,322
Dividends		519,833		70,519
Net appreciation in fair value of investments		100,696,627		60,228,131
Other		32,577		169,123
Less – investment advisory and management fees		(2,875,363)		(2,895,248)
Net gain from investing activities		107,626,908		72,580,847
Securities lending activity (note 3)				
Securities lending income		193,474		265,571
Borrower rebate		253,167		97,134
Securities lending expenses:				
Management fees		(175,754)		(141,864)
Net income from securities lending		270,887		220,841
Net investment gain		107,897,795		72,801,688
Total additions		142,061,713		101,962,650
DEDUCTIONS				
Benefits and other payments				
Pension benefits		34,347,954		32,618,001
Disability benefits		91,563		89,680
Survivor and death benefits		3,730,157		3,555,281
Refunds of contributions		237,399		368,762
Administrative expenses (note 6)		1,487,210		1,565,430
Total deductions		39,894,283		38,197,154
NET INCREASE IN NET POSITION		102,167,430		63,765,496
NET POSITION RESTRICTED FOR PENSIONS				
Beginning of year		693,968,157		630,202,661
End of year	$	796,135,587	$	693,968,157

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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' 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 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.

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.

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.

Fair Value

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.

2. Organization and Plan Description

The Board of Trustees ("Board") administers the ERS in accordance with the Trust Agreement between the Commission and the Board and delegates the day-to-day operations to the Administrator. The Board's main responsibility is to administer the ERS for the sole benefit of the members and to pay the promised benefits. The assets of the ERS are invested with the objective of ensuring that sufficient funds will be available for meeting benefit payments. The Board consists of 11 appointed and elected members as follows: two Commissioners (one each from Montgomery and Prince George's counties); three employee trustees (one each from Montgomery and Prince George's counties and one from the Bi-County office); two public members (one each from Montgomery and Prince George's counties); two Represented Trustees (one MCGEO Representative and one Fraternal Order of Police Representative); and the Commission's Executive Director and Secretary-Treasurer, who serve as Ex-Officio.

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 Employees. 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, ERS Staff, 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. 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.

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.

Benefit Payments. 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

2. Organization and Plan Description (continued)

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.

Plan Termination. 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.

Membership by Plan

As of July 1, 2013, membership in the ERS was as follows:

	Plan A (General)	Plan A (Police)	Plan B	Plan C	Plan D	Plan E	Total
Inactive Plan Members (or their beneficiaries) Currently Receiving Benefits	345	18	729	47	96	-	1,235
Inactive Plan Members Entitled but Not Yet Receiving Benefits			218	7	2	-	227
Active Plan Members	11	-	1,792	175	15	71	2,064
Total membership	356	18	2,739	229	113	71	3,526

2. Organization and Plan Description (continued)

Contributions

The Commission has agreed to make actuarially determined periodic contributions sufficient to provide the ERS with assets for payment of pension benefits. 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.

Employee contributions are established and amended by the Commission and set forth in the ERS' Plan Document. 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.

The total contributions to the ERS for 2014 and 2013 were $34,163,918 and $29,160,962, respectively. In 2014, the Commission contributed $28,750,323 (22.1% of covered payroll of $129,911,593). Employees contributed $5,413,595 (4.2% of covered payroll). 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). The Commission's contributions increased 21% from 2013 to 2014. The increase can be attributed to a loss on the actuarial value of assets.

3. 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.

Trust Fund assets should be invested to obtain an appropriate long-term total return consistent with prudent risk taking. The Trust Fund shall be diversified across investment classes and among investment managers in order to achieve return as compensation for investment risk. The Board established target allocations for each asset class, as well as ranges of expected exposure 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%**
Core Fixed Income	10.0%	7%-13%
High Yield Fixed Income	7.5%	5%-10%
Global Opportunistic Fixed Income	7.5%	5%-10%
Bank Loans	4.0%	2%-6%
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%**

The Board approved revisions to the Statement of Investment Policy ("Policy") on May 6, 2014. The Policy was revised to introduce greater clarity and reestablish the Policy as a broad governance document. Significant revisions included reduction of the core fixed income allocation by 4% to account for a new 4% allocation to bank loans and revision of the long-term assumptions used as a proxy for the return and risk expectations of each asset class.

NOTES TO FINANCIAL STATEMENTS

3. Investments (continued)

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. Investment manager assignments may be implemented with pooled vehicles. In such circumstances, the ERS may not have control with respect to the investment guidelines and objectives as they are written broadly for multiple investors. The Trust Fund has guidelines, which apply broadly to each asset class as follows:

Public Equity Guidelines (U.S. and International)

- Under normal conditions no more than 5% of the value of the U.S. and International composites should be held in cash equivalents at any time.
- The U.S. and International equity composites are expected to remain broadly diversified by economic sector, industry and individual securities at all times.
- The composites should match the asset class benchmark in terms of capitalization and growth characteristics; and be similar to the asset class benchmark in terms of risk.

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.

Fixed Income Guidelines

- The fixed income portfolio is structured to include exposures to the following sub-classes: core fixed income, high yield fixed income, global opportunistic fixed income and bank loans.
- The fixed income composite may have up to 20% of its value in cash equivalents at any time.
- Except for securities issued by the US Government and/or its Agencies, any single issuer is not expected to exceed 5% of the market value of the fixed income composite at any time.
- Duration of each fixed income sub-class should typically remain with +/- 1.5 years of the sub-class benchmark.
- Credit quality for each sub-class is expected to be similar to that of the designated sub-class benchmark. as measured by a recognized rating agency (Standard & Poor's or Moody's).
- Build America Bonds issued by Montgomery County and Prince George's County are prohibited.
- Flexible global opportunistic fixed income guidelines allow manager to invest globally, seeking to add value through duration management, yield curve positioning, sector/issue selection, country market selection and currency.

Real Assets Guidelines

- The real assets portfolio includes private real assets and public real assets.
- Any un-invested portion of the private real assets allocation should remain invested in public real assets.

3. Investments (continued)

Private Real Assets Guidelines

- Investments will be structured privately in the form of commingled or pooled vehicles such as limited partnerships and diversified among the following investment types: real estate, energy, mining, timber, agriculture, and infrastructure.
- The private real assets portfolio is expected to be diversified by geographic location with a minimum of 50% invested in the United States and no more than 30% invested in emerging markets.
- Investments should also be diversified by vintage year. No single partnership commitment is expected to be more than 20% of the real assets portfolio 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.

Investments		**Fair Value 2014**		**Fair Value 2013**
Common stock	$	472,791,644	$	390,272,441
Preferred stock		495,819		404,745
Convertible equity		364,518		1,488,385
Venture Capital and Private Equity Partnerships		56,777,040		18,339,236
Government bonds		17,060,617		9,695,926
Government agencies		6,401,194		10,021,690
Provincial bonds		1,229,116		1,799,377
Corporate bonds		74,701,119		81,517,607
Corporate convertible bonds		2,952,414		4,038,962
Equity exchange traded fund		0		29,888,572
Unit trust equity		6,852		0
Government mortgage-backed securities		10,913,824		19,930,498
Government-issued commercial mortgage-backed		59,328		98,624
Commercial mortgage-backed		5,718,687		6,801,625
Asset-backed securities		4,114,107		400,816
Index linked government bonds		2,079,681		4,221,007
Index linked corporate bonds		0		183,364
Fixed income mutual funds		47,926,663		43,286,623
Real estate		54,261,714		46,264,851
Short term investment funds		39,539,970		27,380,462
Securities lending short term collateral investment pool		47,700,258		80,072,342
Total Investments	$	845,094,565	$	776,107,153

Money-Weighted Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.30%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. Investments (continued)

Investment Risks

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.

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' $845.1 million in investments at June 30, 2014, $47.7 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.

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, 2014 and 2013 were $39,716,729 and $27,511,335, respectively. Cash deposits that were insured and collateralized in the bank account totaled $176,759 and $130,873 at June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, respectively, the ERS held $39,539,970 and $27,380,462 of short term investments in its custodial investment accounts.

As of June 30, 2014, the ERS held $48,047 of short term investments that were exposed to custodial credit risk.

Each investment manager has duration targets and bands that control interest rate risk; however, the ERS does not have a policy relating to interest rate risk.

As of June 30, 2014, the ERS had the following fixed income investments and short term investments with the following maturities:

	Fair Value	Weighted Average
Asset-backed securities	$ 4,114,107	5.488222
Commercial mortgage-backed	5,718,687	28.603932
Corporate bonds	74,701,119	10.083925
Corporate convertible bonds	2,952,414	11.000145
Government agencies	6,401,194	5.183715
Government bonds	17,060,617	6.568612
Government mortgage-backed securities	10,913,824	23.114863
Gov't-issued commercial mortgage-backed securities	59,328	6.339000
Index linked government bonds	2,079,681	5.534220
Provincial bonds	1,229,116	12.883457
Fixed income mutual funds	47,926,663	N/A
Short term investment funds	34,173,069	N/A
TOTAL	$ 207,329,819	10.931997

3. Investments (continued)

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

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 did not hold any CMOs at June 30, 2014 and 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 $4,114,107 and $400,816 in ABS at June 30, 2014 and 2013, respectively.

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.

NOTES TO FINANCIAL STATEMENTS

3. Investments (continued)

Credit Quality Ratings as of June 30, 2014:

Credit Quality Distribution for Services		% of Total Portfolio
Agency	AGY	3.318%
Government Agencies	AAA	0.032%
Government Agencies	AA	0.623%
Government Agencies	A	0.038%
Government Agencies	NR	0.064%
Government Bonds	AA	0.014%
Government Bonds	A	0.102%
Government Bonds	NR	0.046%
Government Mortgage Backed Securities	AA	0.002%
Government Mortgage Backed Securities	NR	0.075%
Gov't-issued Commercial Mortgage-Backed	AA	0.007%
Asset Backed Securities	AAA	0.158%
Asset Backed Securities	AA	0.050%
Asset Backed Securities	A	0.024%
Asset Backed Securities	NR	0.254%
Commercial Mortgage-Backed	AAA	0.380%
Commercial Mortgage-Backed	AA	0.032%
Commercial Mortgage-Backed	BBB	0.084%
Commercial Mortgage-Backed	NR	0.180%
Corporate Bonds	AAA	0.035%
Corporate Bonds	AA	0.468%
Corporate Bonds	A	1.491%
Corporate Bonds	BBB	1.502%
Corporate Bonds	BB	0.781%
Corporate Bonds	B	0.660%
Corporate Bonds	CCC	0.235%
Corporate Bonds	D	0.002%
Corporate Bonds	NR	0.098%
Corporate Convertible Bonds	A	0.031%
Corporate Convertible Bonds	BBB	0.051%
Corporate Convertible Bonds	BB	0.170%
Corporate Convertible Bonds	B	0.073%
Corporate Convertible Bonds	NR	0.023%
Municipal/Provincial Bonds	AA	0.076%
Municipal/Provincial Bonds	A	0.049%
Municipal/Provincial Bonds	BBB	0.017%
Municipal/Provincial Bonds	BB	0.005%
Other Fixed Income	NR	0.801%
Funds - Corporate Bond	NR	3.568%
Funds - Other Fixed Income	NR	4.857%
Funds - Short Term Investment	NR	4.044%

NOTES TO FINANCIAL STATEMENTS

3. Investments (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%

3. Investments (continued)

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, 2014 was as follows:

Investment Type	Currency	Fair Value
Government Bonds	Mexican peso	$ 1,092,127
Government Agencies	Brazilian real	397,728
Government Agencies	Chilean peso	146,463
Government Agencies	Philippine peso	322,651
Corporate Bonds	Australian dollar	236,671
Corporate Bonds	Brazilian real	118,075
Corporate Bonds	Euro	33,570
Corporate Bonds	Mexican peso	152,481
Common Stock	Brazilian real	1,266,120
Common Stock	British pound sterling	8,766,593
Common Stock	Czech koruna	1,048,744
Common Stock	Euro	14,198,099
Common Stock	Hong Kong dollar	4,045,327
Common Stock	Indonesian rupiah	866,111
Common Stock	Japanese yen	8,544,183
Common Stock	Norwegian krone	5,709,010
Common Stock	South Korean won	4,606,098
Common Stock	Swedish krona	2,156,864
Common Stock	Swiss franc	2,836,783
Common Stock	Turkish lira	2,861,148
Municipal/Provincial Bonds	Euro	179,529
Cash	Hong Kong dollar	40,777
Cash	Swiss franc	7,271
Total		$ 59,632,423

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

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.

3. Investments (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, 2014 and 2013.

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 Statements 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 113 days in 2014 and 74 days in 2013.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 37 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 analysis, 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, 2014:

Securities Lent	Fair Value	Cash Collateral Received*
Fixed income securities	$ 25,747,270	$ 26,273,232
Domestic equities	20,342,350	20,768,127
Global equities	1,610,638	1,699,189
Total	$ 47,700,258	$ 48,740,548

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 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.

4. 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, 2014 and June 30, 2013 the ERS did not hold any derivatives. Gains and losses are determined based on quoted market values and recorded in the Statements 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, 2014 and June 30, 2013, the ERS' contracts to purchase and sell by foreign currencies were as follows:

Foreign Exchange Contracts Settled as of June 30, 2014:

Currency	Purchases	Realized Gain/(Loss)	Sells	Realized Gain/(Loss)
Australian dollar	$ -	$ -	$ (16,605)	$ (6)
Brazilian real	144,253	0	(257,703)	(1415)
British pound sterling	-	-	(1,048,291)	(1,232)
Czech koruna	-	-	(100,219)	(142)
Euro	6,519,039	(2,053)	(6,291,711)	(85,948)
Hong Kong dollar	231,611	24	(1,683,588)	88
Japanese yen	377,137	(2,410)	(360,592)	515
Mexican peso	542,953	3,306	(283,384)	(1,122)
Norwegian krone	504,644	4,232	(262,429)	(620)
South Korean won	1,456,548	(760)	(177,543)	(45)
Swedish krona	-	-	(61,808)	94
Swiss franc	2	-	(147,674)	(178)
Turkish lira	2,241,182	(6,818)	(115,440)	(81)

4. Derivatives Policy Statement (continued)

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)

Foreign Exchange Contracts Pending June 30, 2014:

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
British pound sterling	$ 0	$ 0	$ (173,614)	$ 150
Euro	41,079	315	(236,889)	2,616
Hong Kong dollar	0	0	(40,777)	(4)
Indonesian rupiah	545,973	8,318-	0	0
	-	-		

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)

5. Net Pension Liability

The measurement date for implementation of GASB 67 is the ERS' fiscal year end, June 30, 2014. Plan assets (Fiduciary Net Position) are measured as of this date. The Total Pension Liability (TPL) as of this date is based on an actuarial valuation as of July 1, 2013, with adjustments made for the one year difference. Adjustments include Service Cost, Interest on Total Pension Liability, and expected benefit payments during the year. Under GASB 67, the Net Pension Liability (NPL) is established as the difference between the Total Pension Liability and the Plan Fiduciary Net Position.

The components of the net pension liability of the System as of June 30, 2014 are as follows:

	Total for ERS
Total Pension Liability	$ 869,431,917
Plan Fiduciary Net Position	$ 796,135,587
Net Pension Liability	$ 73,296,330
Plan Fiduciary Net Position as a percentage of Total Pension Liability	91.6%

5. Net Pension Liability (continued)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

COLA:	3.0% compounded annually for benefits accrued until July 1, 2012, 2.5% compounded annually thereafter
Inflation:	2.90%
Salary Increases:	2.90% + variable service based increases
Investment Return:	7.40%, net of investment expense and including inflation

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA. An alternate table was used for the valuation of disabled members.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The next assumption review is scheduled for 2015.

There were no changes in actuarial assumptions since the prior year.

Actuarial Cost Method

The July 1, 2013 actuarial valuation was performed using the Entry-Age Normal Actuarial Cost Method.

Assumed Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, and the final investment return assumption, are summarized in the following table:

Asset Class	**Long-Term Expected Real Return - Portfolio**
Domestic Equity	5.80%
International Equity- Developed	6.20%
International Equity- Emerging	7.40%
Fixed Income – U.S. Investment Grade	2.20%
Fixed Income – U.S. High Yield	4.20%
Fixed Income – International	1.10%
Commodities	3.60%
Real Estate	4.50%
Private Equity	8.20%
Cash	0.75%
Total Weighted Average Real Return	**4.83%**
Plus Inflation	3.00%
Total Return w/o Adjustment	7.83%
Risk Adjustment	-0.43%
Total Expected Return	**7.40%**

5. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rates of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Commission, calculated using the discount rate of 7.40%, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.40%	7.40%	8.40%
Total Pension Liability	$ 945,165,075	$ 869,431,917	$ 798,427,480
Plan Net Position	$ 796,135,587	$ 796,135,587	$ 796,135,587
Net Pension Liability	$ 149,029,488	$ 73,296,330	$ 2,291,893
Ratio of Plan Fiduciary Net Position to Total Pension liability	84.2%	91.6%	99.7%

6. 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, 2014 and 2013 was $1,487,210 and $1,565,430, respectively. The administrative expenses are financed by the employer contributions.

The liability for accrued leave as of June 30, 2014 and 2013, was $147,909 and $140,760, respectively, and has been included in accrued expenses in the accompanying financial statements.

Administrative expenses charged to the ERS by the Commission for 2014 were: computer services of $47,200, legal of $64,200, rent of $78,560, postage of $322, and no copier leasing costs. In 2013 the expenses 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.

7. 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 ERS filed an IRS Determination Letter application in January 2014.

8. Retirement Contributions for ERS Employees

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, 2014 was $250,029 and the total payroll was $740,519. The ERS' contribution to the 401(a) Plan was $19,915 (2.7% of covered payroll) for the year ended June 30, 2014

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.

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.

9. 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. These benefits are administered through a separate trust of the Commission. Currently 2 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 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.

9. Other Post-employment Benefits (OPEB) (continued)

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, 2014 and 2013, the ERS contributed $27,200 and $27,400, 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).

10. 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 2014 or 2013 nor was any insurance coverage reduced in 2014 or 2013. 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.

11. Accounting Pronouncements

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 is effective for the reporting period ending June 30, 2014. The adoption of this standard did not have a material impact on the ERS' financial statements.

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 ERS has implemented the effects of this Statement for the reporting period for fiscal years beginning after June 15, 2013. The effects of this Statement on the ERS were additional disclosures and required supplementary information as follows; the change to net position restricted for pensions; the money-weighted rate of return; the long term expected real rate of return; schedule of changes in net pension liability and related ratios; and schedule of employer contributions. The additional disclosures and required supplementary information were not included in the prior year's statements.

11. Accounting Pronouncements (continued)

The GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This Statement establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. However, earlier application of the Statement is encouraged.

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

The GASB issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013.

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

12. Subsequent Events

At its June 18, 2014 meeting, the Commission adopted plan design changes as follows:

- Effective March 1, 2015, employee contributions in Plan C will increase from 8% to 8.5% and Plan D will increase from 7% to 7.5%.
- Effective January 1, 2016, employee contributions in Plan C will increase from 8.5% to 9% and Plan D will increase from 7.5% to 8%.

Required Supplementary Information Under GASB 67[1]

Schedule of Changes in Net Pension Liability and Related Ratios
For Years Ended June 30

	Fiscal Year
	2014
Total Pension Liability	
Service Cost	$16,635,683
Interest	60,003,715
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	(38,407,073)
Net Change in Total Pension Liability	$38,232,325
Total Pension Liability - Beginning of Year	$831,199,592
Total Pension Liability - End of Year	$869,431,917
Plan Fiduciary Net Position	
Contributions – employer	$28,750,323
Contributions – member	5,413,595
Net investment income	107,897,795
Benefit payments, including refunds	(38,407,073)
Admin. expenses	(1,487,210)
Net Change in Plan Fiduciary Net Position	$102,167,430
Plan Fiduciary Net Position - Beginning of Year	693,968,157
Plan Fiduciary Net Position - End of Year	$796,135,587
Net Pension Liability - End of Year	$73,296,330
Plan Fiduciary Net Position as a percentage of Total Pension Liability	91.6%
Covered Employee Payroll	$129,134,125
Net Pension Liability as a percentage of Covered Payroll	56.8%

[1]Data for 2005-2013 not readily available.

Required Supplementary Information Under GASB 67

Schedule of EMPLOYER Contributions
For Years Ended June 30

Year	Actuarially Determined Employer Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2005	$5,051,639	$5,051,639	-	101,881,882	5.0%
2006	8,337,228	8,337,228	-	106,258,394	7.8%
2007	9,824,590	9,824,590	-	109,579,279	9.0%
2008	10,561,434	10,561,434	-	109,579,279	9.6%
2009	13,983,669	14,933,506	(949,837)	122,825,271	12.2%
2010	17,614,908	17,614,908	-	132,240,949	13.3%
2011	35,206,700	25,633,000	9,573,700	142,590,713	18.0%
2012	32,182,287	32,182,287	-	140,407,414	22.9%
2013	23,806,058	23,806,058	-	132,490,722	18.0%
2014	28,750,323	28,750,323	-	129,911,593	22.1%

[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.

The information presented in the Required Supplementary Schedule was determined as part of the actuarial valuation 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)]
07/01/13	Entry age Normal	3.5 (A)	Open	5 year smoothing	7.4%	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. The new methodology uses a fresh start approach and amortizes the unfunded actuarial accrued liability as of July 1, 2013 in equal payments over 15 years using an open amortization method.

(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 5.3% during the period from July 1, 2012 – June 30, 2013, 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 1.6% which is less than the 7.50% return assumption. The total actuarial value of assets as of July 1, 2013 is $690,539,998. The total market value of assets as of July 1, 2013 is $722,718,480. The return on the market value of assets was 11.4% during the period from July 1, 2012 – June 30, 2013, which is greater 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 4.5%, 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 COLA. Effective July 1, 2012 the portion of a person's retirement benefits attributable to credited service for periods on or after July 1, 2012 and earned unused sick leave beginning on or after January 1, 2013 are subject to a 2.5% maximum COLA.

Required Supplementary Information Under GASB 67

Schedule of Money-Weighted Rate of Returns[1]
For Years Ended June 30

	2014	2013	2012	2011	2010
Annual money-weighted rate of return, net of investment expense	15.30%	13.82%	10.09%	12.91%	13.22%

[1]Data for 2005-2009 not readily available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The **Schedule of Changes in Net Pension Liability and Related Ratios** shows the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service and the liability of the Commission to plan members for benefits provided by the plan.

The **Schedule of Contributions** highlights the historical actuarially determined contribution less the actual Commission contribution and reflects the actual contributions as a percentage of covered-employee payroll for the 10-year period ended June 30, 2014. With the exception of 2009, the Commission has consistently contributed 100% of the actuarially determined employer contribution.

The **Schedule of Money-Weighted Rate of Returns** expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Supplementary Schedule

Schedule of Administrative Expenses
Fiscal Years Ended June 30

	2014	2013
Personnel services		
Salaries and wages	$ 740,519	$ 732,067
Social security contributions	54,539	52,391
Retirement contributions	96,930	80,321
Insurance contributions	113,916	106,363
Other employee benefits	45,479	43,624
Unemployment compensation	336	336
Total personnel services	1,051,719	1,015,102
Professional and contractual services		
Actuarial	39,440	64,810
Auditing	29,289	22,210
Legal	113,730	176,437
Computer services	62,175	79,950
Other contractual services	3,010	3,013
Total professional and contractual services	247,644	346,420
Communication costs		
Advertising	1,970	0
Printing	1,029	6,917
Telephone	684	1,500
Postage	322	6,000
Travel, conference and meetings	14,769	17,211
Total communication costs	18,774	31,628
Other services and charges		
Office space rental	78,560	77,370
Equipment leasing	0	8,796
Furniture and equipment	7,717	3,464
Supplies	3,919	3,996
Maintenance	23,755	28,079
Bonding and insurance	35,253	33,655
Dues and subscriptions	2,255	2,112
Other services	5,944	3,138
Total other services and charges	157,403	160,610
Depreciation	11,670	11,670
Total	$ 1,487,210	$ 1,565,430

Supplementary Schedule

Schedule of Investment Expenses
Fiscal Years Ended June 30

	2014	2013
Investment managers		
Fixed income	$ 685,755	$ 758,206
U.S. Equity	252,192	459,522
International equity	1,210,187	1,112,989
Private equity	12	10
Real assets	234,115	67,475
Total investment managers' fees	2,382,261	2,398,202
Other investment service fees		
Custodian fees	300,402	307,646
Investment consulting fees	192,700	189,400
Security lending fees:		
Borrower rebate	(253,167)	(97,134)
Management fees	175,754	141,864
Total other investment service fees	415,689	541,776
Total	$ 2,797,950	$ 2,939,978

Schedule of Payments to Consultants
Fiscal Years Ended June 30

Firm Name	Nature of Service	2014	2013
CliftonLarsonAllen, LLP	Auditor	$ 29,289	$ 22,210
Wilshire Associates, Inc.	Investment Consultant	192,700	189,400
Boomershine Consulting Group, LLC	Actuary	39,440	64,810
GROOM Law Group	Legal	49,530	112,237
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		$ 422,359	$ 500,057

INVESTMENT
Section

Investment Manager Directory

U.S. EQUITIES

Artisan Partners, L.P.
BlackRock Institutional Trust Company, N.A.
J.P. Morgan Investment Management
The Northern Trust Company
RhumbLine Advisors, L.P.

INTERNATIONAL EQUITIES

Capital Group
Earnest Partners, L.L.C.

FIXED INCOME

Core Fixed Income

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

High Yield Fixed Income

Loomis Sayles & Company, L.P.
Neuberger Berman Fixed Income, LLC

Opportunistic Fixed Income

Western Asset Management Company
Oaktree Capital Management, L.P.

Bank Loans

Voya Investment Management

PRIVATE REAL ASSETS

FLAG Capital Management, LLC
Principal Global Investors, LLC

PUBLIC REAL ASSETS

State Street Global Advisors

PRIVATE EQUITY

Wilshire Associates Inc.

Investment Consultant's Report

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 18, 2014
Subject:	Annual Investment Advisor's Review

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 (detailed on following page) is based on data and calculations resulting from the Actuarial Valuation conducted by the actuary, Boomershine Consulting Group, and the subsequent Asset/Liability study conducted by the investment consultant, Wilshire Associates, presented March 6, 2012.

The asset allocation policy was amended in fourth quarter 2013 following the approval of the Bank Loans allocation and offsetting reduction to U.S. Core Fixed Income allocation. This asset allocation policy has been implemented as of first quarter of 2014, 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	10.0	5-15
High Yield Fixed Income	7.5	5-10
Bank Loans	4.0	2-6
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 market 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. Asset 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 calculated by the ERS' investment 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.

- Investment Managers – Wilshire receives investment 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, 2014

	QTR	YTD	1 Year	3 Year	5 Year	10 Year
Equity						
Wilshire 5000 Index	4.9	7.0	24.9	16.3	19.2	8.3
Standard & Poor's 500 Index	5.2	7.1	24.6	16.6	18.9	7.8
MSCI EAFE (N) Index	4.1	4.8	23.6	8.1	11.8	6.9
MSCI ACWI ex-U.S. (N) Index	5.0	5.6	21.8	5.7	11.1	7.7
MSCI Emerging Market (N) Index	6.6	6.1	14.3	-0.4	9.2	11.9
Fixed Income						
Barclays Aggregate Bond Index	2.0	3.9	4.4	3.7	4.9	4.9
Merrill Lynch High Yield BB/B Index	2.5	5.6	11.4	9.0	12.6	8.1
S&P LSTA Leverage Loan Index	1.5	2.5	5.6	5.5	8.5	--
Barclays Global Aggregate Index	2.5	4.9	7.4	2.6	4.6	5.1
Treasury Bills (91 Day)	0.0	0.0	0.1	0.1	0.1	1.6
Real Assets						
Barclays U.S. TIPs Index	3.8	5.8	4.4	3.6	5.6	5.3
Dow Jones UBS Commodity Index	0.1	7.1	8.2	-5.2	2.0	0.9
Wilshire Global REIT Index	8.2	16.5	15.6	11.1	21.7	--
NCREIF ODCE (N) Index	2.7	5.0	11.8	11.4	9.0	6.1
U.S. CPI	0.9	2.3	2.1	1.8	2.0	2.3

US Equity Market

The U.S. stock market was up 4.9% for the second quarter, posting its eighth consecutive quarterly gain. Investors did not appear overly concerned with the worst quarter for Real GDP growth since the recession – and the largest revision of the initial estimates ever. Reactions from the Federal Reserve were muted, as well. The Fed continued tapering their asset purchases and suggested that they believe the downtick in growth and uptick in inflation are both temporary occurrences.

Large capitalization stocks led smaller shares by a sizeable amount for the quarter while results for growth stocks versus value were mixed. All economic sectors showed gains with Energy leading the way, by far. Utilities and Technology were also strong while Financials were the primary laggard.

After 44 consecutive months of job gains, the U.S. has finally recovered all of the jobs that were lost during 2008 and 2009, which totaled 8.7 million. The U.S. is now at an all-time high in terms of those employed although the labor force participation rate is down from 66.4% at year-end 2006 to 62.8% currently due, in part, to retirements within the "Baby Boom" generation. The rate has not been this low in 37 years, which is when that same generation had entered the work force.

International Equity

The escalation of tensions between Russia and Ukraine threatened to impact important energy trade flows between Eastern and Western Europe, with much of the West proposing sanctions against Russia in response to its absorption of Crimea. The deterioration of Iraq's fragile régime fueled additional investor concern during the quarter. However, this turmoil barely provided a pause for global stock markets' upward march. With most major economies enjoying increased central bank support, and China's government working to buoy the nation's economic growth, equities returned healthy gains, with emerging market stocks especially strong.

Domestic Fixed Income

Fixed income markets were notably strong in the second quarter, as U.S. Treasury yields fell at most maturities. Janet Yellen's initial public statements as the new chair of the U.S. Fed reassured markets that accommodative monetary policy would stay in place in the short term. Yet again, investors looked to longer-maturity and higher-credit risk paper in search of yield, tightening investment-grade Corporate spreads to their lowest level since 2007. Emerging market bonds have performed strongly in the first half of 2014 as well, with frontier market financing activity reaching new levels.

Portfolio Review

The ERS net of fee investment performance as of June 30, 2014 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)	**797,269**	**100.0%**	**4.7**	**15.2**	**9.6**	**13.0**	**8.0**
Policy Index/Blended Benchmark			*5.8*	*16.1*	*10.3*	*12.7*	*8.4*
Domestic Equity Comp (9/30/89)	**214,791**	**26.9%**	**5.7**	**23.9**	**15.2**	**18.6**	**9.6**
Wilshire 5000 Index			*7.0*	*24.9*	*16.3*	*19.2*	*9.6*
International Equity Comp (3/31/95)	**204,434**	**25.6%**	**2.4**	**19.2**	**6.4**	**11.6**	**6.7**
Policy Index			*5.6*	*21.8*	*6.0*	*10.5*	*5.4*
MSCI ACWI ex-U.S. (N) Index			*5.6*	*21.8*	*5.7*	*11.1*	*--*
Private Equity Comp (6/30/13)	**7,035**	**0.9%**	**-4.6**	**-5.6**	**--**	**--**	**-5.6**
Wilshire 5000 Index			*7.0*	*24.9*	*--*	*--*	*24.9*
Fixed Income Comp (9/30/89)	**219,749**	**27.6%**	**4.7**	**7.3**	**6.8**	**8.9**	**7.0**
Barclays Aggregate Bond Index			*3.9*	*4.4*	*3.7*	*4.9*	*6.6*
Private Real Asset Comp (9/30/07)	**64,610**	**8.1%**	**2.4**	**7.5**	**8.8**	**6.7**	**-0.7**
Policy Index			*4.4*	*11.1*	*11.2*	*8.9*	*1.2*
Public Real Asset Comp (3/31/13)	**80,670**	**10.1%**	**10.7**	**11.3**	**--**	**--**	**3.3**
Policy Index			*10.7*	*11.3*	*--*	*--*	*3.3*
Managed Cash	**5,980**	**0.8%**	**--**	**--**	**--**	**--**	**--**

The preceding table 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 trailed that of the policy index over the trailing one-year period ending June 30, 2014. During this period, it produced a return of 15.2% versus 16.1% for the policy index. Underperformance during the year is related to equities and real asset spaces which demonstrated shortfalls relative to benchmarks. In contrast, fixed income investments were positive contributors to relative performance. Despite near term results slightly trailing the policy index, the total fund results represent substantial gains when viewed in a longer term context. For the trailing five-year period, the total fund averaged 13.0% per year on an average annualized basis and also outperformed the policy index. Continued strength in equity markets accounted for the majority of return on an absolute basis for both one- and five-year periods; however, positive absolute results were also sourced in fixed income and real assets over these same periods.

Within equity markets, the domestic equity composite trailed the Wilshire 5000 (23.9% versus 24.9%) due in large part to underperformance by certain manager accounts resulting from poor stock selections. Within international equity markets, investment managers were challenged by weakness in emerging markets over the past year as well as certain currencies that depreciated versus the U.S. dollar. In this environment, the international equity composite produced a one-year return of 19.2% versus 21.8% for the benchmark index, MSCI ACWI ex-U.S. Also within equities, private equity investments continued to fund however nearly all investments are early in their lifecycles and results are not meaningful at this stage.

The fixed income composite performed well during that past year, returning 7.3% versus 4.4% for the Barclays Aggregate. “Non-core” investments including high yield and global/opportunistic investments contributed positively to this outperformance. During the year, an allocation to bank loans was funded. This new asset class exposure is represented by investments in loans which are predominantly senior, secured obligations paying floating rate coupons based on LIBOR. The floating rate nature potentially provides a degree of protection if LIBOR (or other benchmark interest rate) rises.

Both public and private real asset composites provided positive absolute results for the trailing one-year period. The public real assets composite is implemented with underlying index exposures to Treasury inflation-protected securities, global real estate securities, commodities, and global natural resource equities. Collectively, theses publicly traded investments returned 11.3% for the year, closely matching the benchmark for this strategy. The private real assets composite returned 7.5% for the trailing one-year period. This segment of the portfolio contains various real estate and natural resource investments, many of which are early in their lifecycles and results are not fully meaningful at this stage.

The ERS Board continued its efforts in maintaining best practices with its investment monitoring, focus on competitive fees, and ongoing education. Among many examples of the Board’s oversight was the comprehensive review and updating of the Statement of Investment Policy during the past year.

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, 2014

Manager Name and/or Fund Name	Style		Account Balance $(000)	% of Fund
U.S. Equities				
Artisan Small Cap Value Fund	Small Cap Value	$	23,480	2.9%
Blackrock Equity Index Fund	Large Core		66,666	8.4%
J.P. Morgan Commingled Pension Trust Fund (US Active Core Plus Equity)	130/30 Short Extension		29,171	3.7%
Northern Trust Collective Russell 2000 Growth Index Fund – Lending	Small Cap Growth		25,819	3.2%
RhumbLine S&P 500 Pooled Index Trust	Large Core		69,655	8.7%
		$	**214,791**	**26.9%**
International Equities				
Capital Group Institutional All Countries Equity Trust	ACWI ex-U.S.	$	102,165	12.8%
Earnest Partners, L.L.C.	ACWI ex-U.S.		102,269	12.8%
		$	**204,434**	**25.6%**
Private Equity				
Wilshire MNCPPC Employee Retirement System Global, L.P.	Other	**$**	**7,035**	**0.9%**
Fixed Income				
C.S. McKee, L.P.	Core	$	40,845	5.1%
Eaton Vance Management	Core		40,612	5.1%
Loomis Sayles High Yield Full Discretion Trust	High Yield		30,975	3.9%
Neuberger Berman High Yield Bond Fund, LLC	High Yield		30,155	3.8%
Voya Senior Loan Fund	Bank Loans		30,286	3.8%
Western Asset Global Multi-Sector, LLC	Global Multi-Sector		41,077	5.2%
Oaktree Real Estate Debt Fund, L.P.	Real Estate Debt		1,453	0.2%
Oaktree Opportunities Fund VIII, L.P.	Distressed Opportunities		4,256	0.5%
Other[2]			90	0.0%
		$	**219,749**	**27.6%**
Private Real Assets				
Principal U.S. Property Account	Real Estate	$	46,246	5.8%
FLAG Energy & Resources Partners II, L.P.	Real Assets		10,117	1.3%
FLAG Real Estate Partners II, L.P.	Real Estate		6,398	0.8%
FLAG Energy & Resources Partners III, L.P.	Real Assets		1,379	0.2%
FLAG Real Estate Partners III, L.P.	Real Estate		470	0.1%
		$	**64,610**	**8.1%**
Public Real Assets				
SSgA Custom Real Asset Non-Lending Strategy	Diversified	**$**	**80,670**	**10.1%**
Cash		**$**	**5,980**	**0.8%**
TOTAL		**$**	**797,269**[1]	**100%**

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

[2] Adelphia and Century Securities Only

List of Largest Held Domestic Equities

As of June 30, 2014

Equity Income Securities	No. of Shares		Fair Value
SHIRE PLC ORD GBP0.05	64,889	$	5,070,436
ADR ARM HLDS PLC SPONSORED ISIN US0420681068	85,308		3,859,334
CORE LABORATORIES NV NLG0.03	22,424		3,746,153
ADR ICICI BK LTD	63,914		3,189,309
DENSO CORP NPV	64,100		3,059,311
DNB ASA NOK10	156,617		2,863,685
ROCHE HLDGS AG GENUSSCHEINE NPV	9,511		2,836,783
ICON PLC COM	59,534		2,804,647
AMADEUS IT HLDGS EUR0.01	66,151		2,727,988
SCHOELLER BLECKMAN EUR1 (BR)	20,578		2,655,152
EVEREST RE GROUP COM	16,128		2,588,383
DIAGEO ORD PLC	79,245		2,528,375
ADR ADVANCED SEMICONDUCTOR ENGR INC SPONSORED ADR	381,915		2,482,448
ADR NOVARTIS AG	27,222		2,464,408
STATOIL ASA	72,209		2,226,203
SECOM CO NPV	35,500		2,169,143
GETINGE AB SER'B'NPV	82,115		2,156,864
BASF - ORD SHS COMSTK	17,342		2,018,935
ADR RIO TINTO PLC SPONSORED ADR	36,401		1,975,846
HYUNDAI MOBIS KRW5000	6,554		1,839,628

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, 2014

Fixed Income Securities	Par	Fair Value
CF WESTN ASST GBL MULTI-SECTOR LLC FD	2,570,154	$ 41,047,923
CF NEUBERGER BERMAN HI YEILD BD LLC FD	744,541	30,155,424
UNITED STATES TREAS NTS DTD 00084 4% DUE 02-15-2015 REG	4,260,000	4,363,671
UNITED STATES TREAS NTS 2.125 DUE 01-31-2021 REG	1,726,000	1,734,495
UNITED STATES TREAS BDS 2.875 DUE DUE 05-15-2043	1,786,000	1,631,958
FHLB STEP UP 01-10-2017	1,445,000	1,445,173
USA TREASURY NTS TIPS DTD 00340 04-15-2016	1,201,000	1,323,635
UTD STATES TREAS 2% DUE 04-30-2016	1,180,000	1,214,755
UNITED STATES TREAS NTS DTD 00152 4.625% DUE 02-15-2017 REG	1,025,000	1,129,582
UNITED STATES TREAS NTS UNITED STATES TREAS NTS 3.5% DUE 02-15-2018 REG	1,010,000	1,094,035
FNMA .875 08-28-2017	1,080,000	1,074,007
UNITED STATES TREAS NTS DTD 11/15/2009 3.375% DUE 11-15-2019 REG	955,000	1,037,667
FEDERAL FARM CR BKS VAR RT 11-14-2016	817,000	817,025
UTD STATES TREAS 1.25% DUE 10-31-2018	759,000	753,130
LUCENT 6.45% DUE 03-15-2029	685,000	678,150
UNITED STATES TREAS NTS 1 DUE 10-31-2016	670,000	676,281
FEDERAL NATL MTG ASSN GTD MTG POOL #AK3264 3% 02-01-2027 BEO	647,323	673,242
SPRINT CAP CORP 6.875% DUE 11-15-2028	660,000	666,600
UTD STATES TREAS 2% DUE 05-31-2021	621,000	616,343
HCA INC 7.5% DUE 11-06-2033	570,000	605,625

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

Schedule of Broker Commissions

As of June 30, 2014

Broker	Shares	Commissions	Commission per share
BARCLAYS CAPITAL	346,692	77	0.022%
BNY CONVERGEX EXECUTION SOLUTIONS	93,884	3,286	3.500%
CAPITAL INSTITUTIONAL SERV NEW YORK	11,745	411	3.500%
CHEEVERS AND COMPANY, INC.	1,223	24	2.000%
CITIGROUP GLOBAL MARKETS INC.	708,250	225	0.032%
CREDIT AGRICOLE SECURITIES USA INC	672,204	2,551	0.380%
CREDIT SUISSE AG, NEW YORK BRANCH	464,057	13	0.003%
DEUTSCHE BANK AG	420,485	3,361	0.799%
DEUTSCHE BANK SECURITIES INC.	111,736	1,450	1.298%
GOLDMAN SACHS INTERNATIONAL	42,492	160	0.376%
GOLDMAN, SACHS AND CO.	78,651	778	0.989%
G-TRADE SERVICES LLC	32,028	1,204	3.759%
ICAP DO BRASIL DTVM LTDA	2,000	21	1.026%
INVESTMENT TECHNOLOGY GROUP LTD.	1,403	164	11.708%
ITG HONG KONG LIMITED	52,400	31	0.059%
J.P. MORGAN CLEARING CORP.	247,738	222	0.090%
J.P. MORGAN SECURITIES PLC	72,070,731	1,559	0.002%
JEFFERIES AND COMPANY, INC.	1,731,112	2,062	0.119%
JPMORGAN SECURITIES (ASIA PACIFIC)	667,000	381	0.057%
M.R. BEAL AND COMPANY	15,734	315	2.000%
MACQUARIE BANK LIMITED	193,900	1,046	0.539%
MACQUARIE SECURITIES USA INC	958	34	3.500%
MERRILL LYNCH AND CO., INC.	189,253	1,692	0.894%
MERRILL LYNCH INTERNATIONAL LIMITED	8,774	678	7.723%
MERRILL LYNCH PIECE FENNER & SMITH	748,406	544	0.073%
MORGAN STANLEY AND CO., LLC	480,185	1,527	0.318%
NOMURA FINANCIAL AND INVESTMENT (KO	390	108	27.695%
PERSHING LLC	325,245	81	0.025%
RBC EUROPE LIMITED	1,522	169	11.093%
UBS SECURITIES	216,642	6,499	3.000%
WILLIAM BLAIR AND COMPANY	3,858	1,497	38.801%
WILLIAMS CAPITAL GROUP L.P.,THE	4,033	141	3.500%
Total	**79,944,731**	**32,311**	

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

BOOMERSHINE CONSULTING GROUP, LLC
ACTUARIAL & RETIREMENT PLAN SOLUTIONS

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

December 2, 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, 2013

This report presents the results of the Annual Review and Actuarial Valuation of the M-NCPPC Employees' Retirement System prepared as of July 1, 2013 and sets forth the recommended contribution according to the System's funding policy and Plan Amendments effective July 1, 2013. A separate report will be issued for accounting purposes under GASB 67.

The valuation was performed on the basis of employee census data as of July 1, 2013 and investment fund data as of July 1, 2013, 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. 67.

The schedules prepared by BCG, and included in the System's Comprehensive Annual Financial Report, are the following:

- Summary of Actuarial Assumptions and Methods
- Schedule of Employer Contributions (required supplementary information)
- Schedule of Funding Progress
- Solvency Test*

* The amounts in these schedules are based on BCG's results for the valuation date since 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 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 2013. 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 and July 1, 2013 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 $26,210,406 is the recommended total to meet the System's funding objectives calculated as of July 1, 2013. A contribution of $28,149,976 payable as of July 1, 2014 is the recommended total to meet the System's funding objectives for the 2014-15 fiscal year. This contribution represents 21.8% of 2013 estimated covered payroll. Last year's recommended contribution was $26,744,487. With interest at 7.5% for one year, the contribution was $28,750,323, or 22.1% of the 2012 covered payroll.

A breakdown of the contribution payable July 1, 2014 between Park Police and Non-Police employees is shown below:

	7/1/2014 Amount	2013 Payroll	% of Payroll
Non-Police	$23,319,219	$115,936,747	20.11%
Park Police	4,830,757	13,197,378	36.60%
Total	**$28,149,976**	**$129,134,125**	**21.80%**

The Net Employer Normal Cost payable at the beginning of the year increased from $10,432,377 (8.0% of payroll) to $11,465,417 (8.9% of payroll). The amortization of the Unfunded Actuarial Accrued Liability decreased from $16,312,110 to $14,744,989 primarily due to a change in method of the amortization of the Unfunded Actuarial Accrued Liability. The breakdown of the actuarial loss is as follows:

	7/1/2013 Amount	% of Liability/ Assets
NET LIABILITY (GAIN)/LOSS		
Salary Increases Less than Expected	$(7,953,446)	(1.0%)
New Hires	344,468	0.0%
New Terminations and Retirements	(24,081)	0.0%
COLA Increases Less than Expected	(7,521,345)	(0.9)%
Other Experience	9,453,633	1.1%
Total Liability (Gain)/Loss	(5,700,771)	(0.7)%
ACTUARIAL ASSET VALUE (GAIN)/LOSS	14,616,879	2.1%
NET ACTUARIAL (GAIN)/LOSS	$8,916,107	

Plan Provisions and Assumption Changes in the Funding Valuation

1) The Commission established a new Plan E for employees (except Park Police) hired on or after January 1, 2013. There were 71 new participants that were valued in Plan E.

2) The investment assumption was changed from 7.5% to 7.4% with a corresponding decrease in the salary scale assumption by 0.1%.

3) The Expense assumption was changed from an assumption of 1% of payroll to 0.2% of the Actuarial Accrued Liability.

4) The asset allocation method was changed to first allocate the assets toward inactive liability across all plans and then allocate the remaining assets towards the active liability proportionately.

5) The amortization of the Unfunded Actuarial Accrued Liability was used with a Fresh Start approach and using a 15 year open amortization method.

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 5.3% 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 1.6%, which is less than the 7.50% return assumption. The total Actuarial Value of Assets as of July 1, 2013 is $690,539,998.

The total Market Value of Assets as of July 1, 2013 is $722,718,480. The return on the Market Value of Assets was 11.4% during the past year, which is greater 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 4.5%, which is less than the 7.50% return assumption.

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 funding valuation to the Board of Trustees.

Sincerely,

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

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

ACTUARY'S CERTIFICATION LETTER

September 12, 2014

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 FY2014 GASB 67 Disclosure Information (For Financial Reporting Purposes)

Dear Board Members:

This report presents the Governmental Accounting Standards Board (GASB) information based on the Annual Review and Actuarial Valuation of The Maryland-National Capital Park and Planning Commission Employees' Retirement System (System) prepared as of July 1, 2013.

The valuation was performed on the basis of employee census data as of July 1, 2013 and investment fund data as of June 30, 2014, submitted by the System. 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.

The report was prepared in accordance with generally accepted actuarial principles and practices. In the opinion of the System and its actuaries, the actuarial assumptions used are reasonably related to Plan experience and expectations, and represent the best estimate of anticipated Plan experience.

The schedules prepared by BCG and included in the System's Comprehensive Annual Financial Report are the following:

- Long Term Expected Real Rate of Return
- Sensitivity of the Net Pension Liability to Changes in the Discount Rate
- Development of Net Pension Liability
- Changes in Net Pension Liability
- Schedule of Employer Contributions (required supplementary information)

The Total Pension Liability under GASB 67, as of June 30, 2014 is $869,431,917, compared to the Plan Fiduciary Net Position of $796,135,587, resulting in a (GASB) funding ratio of 91.6%.

The undersigned below are members of the American Academy of Actuaries, and are qualified to render the actuarial opinions presented in this report.

Respectfully Submitted,
BOOMERSHINE CONSULTING GROUP, L.L.C.

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

Gregory M. Stump, FSA, EA, MAAA, FCA
Senior Actuary

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

Prior to July 1, 2013 - 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.

After July 1, 2013 – Open 15 year amortization of the unfunded actuarial accrued liability.

Valuation Date

July 1, 2013

Investment Rate of Return

7.4% compounded annually.

Salary Increases

2.0% per year plus additional merit increases for 2013 and 2.9% per year plus additional merit increases for 2014 and later as follows:

Years of Service	Park Police	Non-Police
0	.044	.029
5	.034	.0265
10	.024	.0240
15	.016	.019
20	.0000	.014
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

[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.

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
The assumed interest rate is deemed to be net of investment expenses.

Expenses

Prior to July 1, 2013 - Other expenses are added to the normal cost and assumed to be 1.0% of payroll.

After July 1, 2013 – Other expenses are added to the normal cost and are assumed to be 0.2% of the actuarial accrued liability.

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.

SCHEDULE OF FUNDING PROGRESS

Ten-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 July 1	(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)
2004	507,413,323	469,344,285	(38,069,038)	108.1	101,881,882	(37.4)
2005	521,369,236	507,393,109	(13,976,127)	102.8	106,058,394	(13.2)
2006	552,432,436	544,748,263	(7,684,173)	101.4	109,579,279	(7.0)
2007	600,285,246	615,588,955	15,303,709	97.5	122,825,271	12.5
2008	633,699,751	662,224,634	28,524,883	95.7	132,240,949	21.6
2009	541,519,199	726,000,351	184,481,152	74.6	142,590,713	129.4
2010	609,902,953	763,860,139	153,957,186	79.8	140,407,414	109.7
2011	659,362,107	761,343,000	101,980,893	86.6	132,490,722	77.0
2012	660,231,611	802,077,365	141,845,754	82.3	129,911,593	109.2
2013	690,539,998	831,199,592	140,659,594	83.1	129,134,125	108.9

Analysis of the dollar amounts of plan net assets, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage is the stronger the system. Trends in the unfunded actuarial accrued liability (or excess of) and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is the stronger the system.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Total Number of Members	Annual Salary	Annual Average Pay	% Increase/Decrease in Average Pay
General Employees				
7/1/2004	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)
7/1/2013	1,874	115,936,747	61,866	(1.3)
Park Police				
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)
7/1/2013	190	13,197,378	69,460	(0.5)
Total				
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)
7/1/2013	2,064	129,134,125	62,565	(1.2)

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

As of date	Added to rolls No.	Added to rolls Annual allowances	Removed from rolls No.	Removed from rolls Annual allowances	Rolls end of year No.	Rolls end of year Annual allowances	% Increase in annual allowances	Average annual allowance
7/1/2013	75	$ 2,173,664	16	$ 406,440	1,235	$ 37,399,741	5.92%	$ 30,283
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 five 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**	**Vested Terminations, Retirees and Beneficiaries**	**Active Members (Employer Financed Portion)**	**Actuarial Value of Assets**	**% Portion of Accrued Liabilities Covered by Reported Assets**		
7/1/2002	$ 42,932,695	$ 172,699,508	$ 185,222,824	$ 475,869,664	100	100	140.5
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	118.0
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	39.7
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
7/1/2013	64,747,601	501,072,738	265,379,253	690,539,998	100	100	47.0

[1]Note: There was a large drop in assets from 07/01/2008 to 07/01/2009 while liabilities continued to grow. Because the solvency test first fully funds member contributions and the inactives (Vested Terminations, 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, 2014 as well as detailing the ERS' largest source of revenue capacity - investment income through June 30, 2007 and again in June 30, 2010 through 2014. 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 benefit type and refund of contributions for the 10-year period ended June 30, 2014.

The **Schedule of Average Benefit Payments** provides the summary of statistics relating to the average annuitant's receipt of annuities over the six-year period ended June 30, 2014.

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

For Years Ended June 30
(dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
ADDITIONS										
Employer contributions	$ 28,750	$ 23,806	$ 32,182	$ 25,633	$ 17,615	$ 14,933	$ 10,561	$ 9,825	$ 8,337	$ 5,052
Member contributions	5,414	5,355	4,396	4,698	5,136	4,893	4,522	4,402	3,898	3,828
Investment income (loss)(net of expenses)	107,898	72,802	14,100	111,044	63,460	(119,445)	(55,310)	90,748	40,529	35,595
Total additions	142,062	101,963	50,678	141,375	86,211	(99,619)	(40,227)	104,975	52,764	44,475
DEDUCTIONS										
Benefit payments	38,170	36,263	33,833	32,775	27,567	25,671	23,636	21,319	19,129	16,670
Refunds	237	369	317	359	335	249	382	489	360	419
Administrative expenses	1,457	1,565	1,453	1,366	1,323	1,359	1,250	1,182	1,078	1,054
Total deductions	39,864	38,197	35,603	34,500	29,225	27,279	25,268	22,990	20,567	18,143
CHANGE IN FIDUCIARY NET POSITION	$ 102,167	$ 63,766	$ 15,075	$ 106,875	$ 56,986	$ (126,898)	$ (65,495)	$ 81,985	$ 32,197	$ 26,332

Schedule of Benefit and Refund Deductions

From Fiduciary Net Position by Type
For Years Ended June 30
(dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Type of Benefit										
Retirees	$ 34,348	$ 32,618	$ 30,547	$ 29,225	$ 24,289	$ 22,515	$ 20,505	$ 18,640	$ 16,580	$ 14,576
Survivors	3,730	3,555	3,199	3,464	3,192	3,072	3,050	2,600	2,472	2,020
Disability benefits	92	90	87	86	86	83	81	79	77	74
Total benefits	$ 38,170	$ 36,263	$ 33,833	$ 32,775	$ 27,567	$ 25,670	$ 23,636	$ 21,319	$ 19,129	$ 16,670
Refund of contributions	$ 237	$ 369	$ 317	$ 359	$ 335	$ 249	$ 382	$ 489	$ 360	$ 419

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

As of July 1, 2013

YEARS OF CREDITED SERVICE --->

	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
Number of Retirees and Survivors	49	146	137	176	243	261	223	1235
Average monthly benefit	$446	$698	$1,064	$1,605	$2,687	$3,441	$4,545	$2,524
Average final average salary	$40,190	$45,897	$48,727	$55,496	$66,417	$65,815	$72,293	$60,095
Average years of service	3.8	8.2	12.9	18.1	23.1	28.7	33.6	21.8

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 2003-2007 not readily available

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6611 Kenilworth Avenue, Suite 100
Riverdale, Maryland 20737