Montgomery County
Employee Retirement Plans

Comprehensive Annual Financial Report

Employees' Retirement System
Retirement Savings Plan
Deferred Compensation Plan

(*Trust Funds of Montgomery County, Maryland*)

Fiscal Year 2016
July 1, 2015 – June 30, 2016

Prepared by Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor
Rockville, Maryland 20850

MONTGOMERY COUNTY

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MARYLAND

MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2016
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INTRODUCTION SECTION

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

November 23, 2016

Honorable County Executive and
Members of the Montgomery County Council

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Montgomery County, Maryland (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2016. This annual report is designed to assist you in understanding the structure and current status of the Plans.

FORMAL TRANSMITTAL OF THE CAFR

This report was prepared pursuant to the provisions of Section 33-51(b) of the Montgomery County Code, 2004, as amended (Code), and includes the independent auditor's report, issued by the County Council's appointed independent public accounting firm. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the plan net assets and the changes in plan net assets and financial position of the Plans; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Plans have been included.

PROFILE OF THE RETIREMENT PLANS

History

The Employees' Retirement System (System) was established in 1965, as a cost-sharing, multiple-employer defined benefit pension plan providing benefits to the employees of the County and other agencies or political subdivisions who elect to participate. Participating agencies and subdivisions include the following: Montgomery County Revenue Authority; Housing Opportunities Commission of Montgomery County; Town of Chevy Chase; Strathmore Hall Foundation, Inc.; Washington Suburban Transit Commission; Montgomery County Employees Federal Credit Union; and certain employees of the State Department of Assessments and Taxation; and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a GRIP, a cash balance plan that is part of the System, for employees. During FY 2010, eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP, to transfer their RSP member account balance to the GRIP, and to cease being a member of the RSP. There were 5,513 active members, including 1,526 in the GRIP, and 6,453 retirees and beneficiaries participating in the System as of June 30, 2016.

The RSP was established in 1994 as a cost-sharing multiple-employer defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Employees covered by the System may make an irrevocable decision to transfer to the RSP. At June 30, 2016, there were 3,670 active plan members.

The Deferred Compensation Plan (DCP) was established pursuant to Section 457 of the Internal Revenue Code, as amended. During FY 1999, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries.

Benefit Provisions

The benefit provisions of the System are established by the Code. The System provides for normal service retirement and early service retirement benefits for members who attain age and service requirements. The System also provides options for disability and death benefits to eligible participants. Members are vested after five years of service.

The RSP provides for immediate vesting of employee contributions, and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age.

Major Initiatives

During FY 2016, the Board continued to implement portfolio adjustments which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, new investments were approved in the following sectors: private equity, private real assets, and opportunistic.

INFORMATION USEFUL IN ASSESSING THE RETIREMENT PLANS' ECONOMIC CONDITION

Financial Information

Accounting System and Reports

The Plans' financial statements have been prepared under the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits, refunds and distributions are recognized when due in accordance with the terms of the Plans.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A), found on pages 15 to 19 of this report, provides a brief analysis of the financial performance of the Plans and an introduction to the financial statements of the Plans for the year ended June 30, 2016.

Investments

Montgomery County has established a Board to be responsible for the investment management of the Plans' assets for the exclusive benefit of the members and participants. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

In overseeing the management of the assets of the Plans, the Board has developed sound and prudent investment policies. The Board believes an appropriate balance must be struck between risks taken and returns sought to ensure the long-term health of the defined benefit plan. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long- term increases in the value of assets. To achieve this objective, System assets are allocated to a broad array of investment sectors as follows: domestic equities 18.8 percent, private equity/debt 7.8 percent, international equities 14.7 percent, global equities 3.6 percent, fixed income 26.2 percent, inflation indexed bonds 10.7 percent, opportunistic 3.3 percent, private real assets 5.4 percent, and public real assets 9.5 percent. For the twelve months ended June 30, 2016, the total return achieved by the System's investments was a gain of 1.90 percent, compared to the gain recorded by the System's benchmark index of 2.75 percent and the actuarial assumed rate of return of 7.5 percent.

Section 33-125 of the Montgomery County Code authorizes the Board to establish for members of the RSP a diversified slate of mutual and commingled investment funds from which participants may select options. The Board has developed an investment policy outlining its oversight of the investment products offered.

The Board has also established a diversified slate of mutual and commingled funds for the County Plan which offers a range of options from which participants may select. The Board has constructed an investment policy stipulating investment objectives and oversight by the Board.

Funding

The System's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the June 30, 2016 valuation, the actuarial value of assets was $3.8 billion and the aggregate actuarial liability was $4.1 billion, resulting in a funded status ratio of 91.7%.

The Schedule of Changes in the Employers' net pension liability and related ratios, included as Required Supplementary Information in the Financial Section, expresses the System's actuarial value of assets as a percentage of the total pension liability, providing one indication of the System's funding status on a going-concern basis. The actuary has determined that the present net asset base, expected future contributions, and investment earnings thereon, are sufficient to provide for full payment of future benefits under the entry-age normal actuarial cost method.

Internal Control Structure and Budgetary Controls

The Plans' management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2016 adequately safeguard the Plans' assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the Board, in conjunction with the Chief Administrative Officer, approves and actively monitors the annual budgets for each plan. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Independent Audit and Actuarial Certification

An independent auditor's report and actuarial certification are included in this report.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its comprehensive annual financial report for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Montgomery County Employee Retirement Plans have received the Certificate of Achievement for the last fifteen consecutive years. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgements

The Plans' CAFR was prepared by the Montgomery County Employee Retirement Plans' staff in conjunction with staff support from the County's Department of Finance. I would like to express my appreciation to the employees who have worked hard throughout the year to ensure the successful operation of the Plans.

Respectfully submitted,

Timothy L. Firestine

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

BOARD OF INVESTMENT TRUSTEES

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Montgomery County Director of Finance
Ex-Officio Member

Gino Renne
Vice Chair
OPT/SLT Bargaining Unit Designee

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Montgomery County Council Representative
Term Expires March 2018

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Term Expires March 2017

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Ex-Officio Member

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Montgomery County Director of
Management and Budget
Ex-Officio Member

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Montgomery County Council Representative
Term Expires March 2017

Jennifer E. Barrett
Retired Employees Representative
Term Expires March 2018

Kelda J.C. Simpson
Police Bargaining Unit Designee

George Willie
Public Representative
Term Expires March 2017

ADMINISTRATIVE ORGANIZATION

Professional Services

Actuary	Auditor	Custodial Bank
Gabriel Roeder Smith & Company	CliftonLarsonAllen LLP	The Northern Trust Company

Investment Consultants

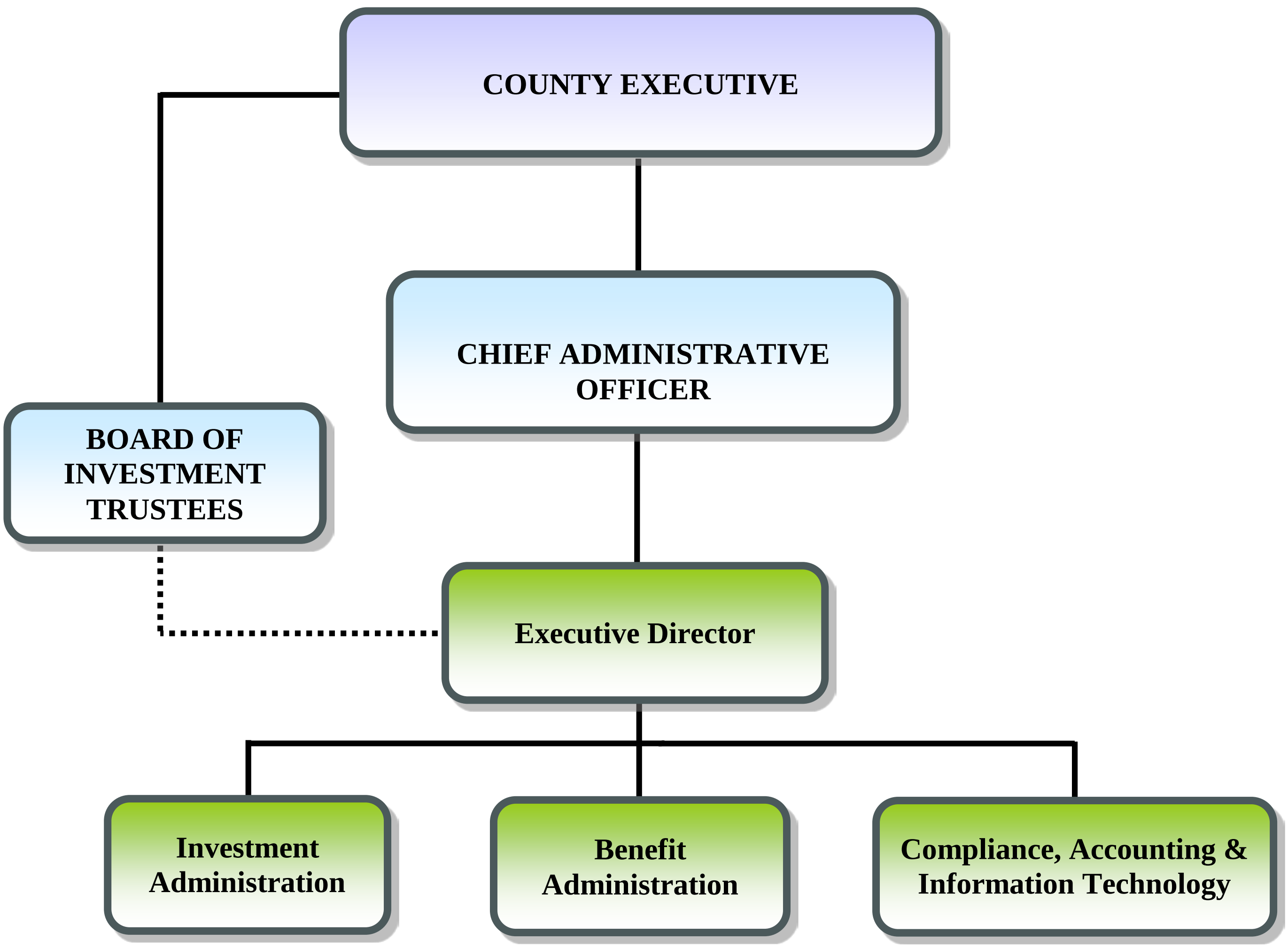
Wishire Associates	Albourne America, LLC
Franklin Park	Aberdeen Asset Management, Inc.

Investment Managers-Employees' Retirement System

Aberdeen Asset Management, Inc.	Adams Street Partners	AEW Partners
Altaris Capital Partners	Altus Capital Partners	Atlas Capital Resources
Barrow, Hanley, Mewhinney & Strauss	BlackRock Financial Management	Bridgewater Associates
Carmel Partners	Castlelake	Chickasaw Capital Management
Clearlake Capital Group	CoreCommodity Management	Cornerstone Real Estate Advisers LLC
DW Healthcare Partners	Eagle Asset Management	EnerVest Ltd.
First Quadrant LP	Franklin Park	GMO, LLC
Grosvenor Capital Management	Gryphon International Investment Corporation	Hampshire Companies
HarbourVest Partners	Highclere International Investors LLP	Homestead Capital
Hudson Bay Capital Management LP	Jennison Associates	J.F. Lehman & Company
JP Morgan Investment Management	Juniper Capital LP	K1 Investment Management, LLC
KPS Capital Partners, LP	Landmark Partners Inc.	LBA Realty
Levine Leichtman Capital Partners	Lime Rock Resources	Loomis Sayles & Co.
Los Angeles Capital Management	Luxor Capital Partners	Lyme Timber Company
Marathon Asset Management LLP	Mason Wells	Meridian Realty Partners
MKP Opportunity Partners	Mondrian Investment Partners Ltd.	Nomura Asset Management
Och-Ziff Capital Management	Odyssey Investment Partners	Pearlmark Real Estate Partners
PineBridge Investments LLC	Pomona Capital	Resource Land Holdings
RhumbLine Advisors	Riverside Partners	Sands Capital Management
Schroder Investment Management	Scopia Capital Management	Siris Capital Group LLC
Sunstone Partners	TA Associates	TA Associates Realty LLC
Thoma Bravo	Wellington Management	Wicks Group

* Public equity commission brokers are listed on page 58.

Montgomery County Employee Retirement Plans
Administrative Organization Chart



FINANCIAL SECTION

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

The Honorable County Council of Montgomery County, Maryland
Board of Investment Trustees
Montgomery County Employee Retirement Plans
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Montgomery County Employee Retirement Plans (the Plans), which comprise the statements of fiduciary net position as of June 30, 2016, and the related statements of changes in fiduciary net position for the year then ended and the related notes to the 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 fiduciary net position of the Plans as of June 30, 2016, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in the employers' net pension liability and related ratios, employer contributions and investment returns and related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Plan's financial statements. The schedules of administrative expenses and investment expenses and the statements of fiduciary net position and changes in fiduciary net position for the employees retirement system, retirement savings plan and the deferred compensation plan (supplementary information), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Montgomery County Employee Retirement Plans financial statements for the year ended June 30, 2015, which are presented with the accompanying financials statements. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plans financial statements as a whole. The statements of fiduciary net position as of June 30, 2015, and the related statements of changes in fiduciary net position for the year then ended, are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of fiduciary net position as of June 30, 2015, and the related statements of changes in fiduciary net position for the year then ended are fairly stated in all material respects in relation to the financial statements from which they have been derived.

The introduction, 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 financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016, on our consideration of the Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 23, 2016

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Montgomery County Employee Retirement Plans (Plans) financial performance provides an introduction to the financial statements of the Plans as of and for the year ended June 30, 2016. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the transmittal letter in the Introduction Section on page 4, and the financial statements, required supplementary information, and other supplementary information which follow this discussion.

REQUIRED FINANCIAL STATEMENTS

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The Statements of Fiduciary Net Position comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities. The Statements of Changes in Fiduciary Net Position report the changes of the Plans' net position, measured by the additions by major sources and deductions by type. Comparative financial statements of the three plans are presented in the latter part of the financial section.

FINANCIAL ANALYSIS OF THE MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

Shown below is a condensed presentation of the net position of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

Net Position
(Millions)

	ERS		RSP		DCP	
	2016	2015	2016	2015	2016	2015
Assets:						
Cash and investments	$ 3,829.6	$ 3,925.6	$ 334.3	$ 313.8	$ 348.1	$ 351.9
Receivables	41.7	15.1	1.7	1.5	0.9	0.7
Capital assets	0.3	0.6	-	-	-	-
Total assets	3,871.6	3,941.3	336.0	315.3	349.0	352.6
Liabilities	230.0	279.6	-	-	-	-
Total net position	$ 3,641.6	$ 3,661.7	$ 336.0	$ 315.3	$ 349.0	$ 352.6

Shown below is a condensed summary of the changes in net position of the ERS, RSP, and DCP for the years ended June 30:

Changes in Net Position
(Millions)

	ERS				RSP				DCP			
	2016		2015		2016		2015		2016		2015	
Additions:												
Employer contributions	$	134.8	$	151.3	$	19.7	$	18.5	$	-	$	-
Member contributions		27.0		26.6		10.7		9.7		18.8		19.2
Net investment income (loss)		57.7		67.1		0.5		7.5		(0.1)		15.3
Total additions		219.5		245.0		30.9		35.7		18.7		34.5
Deductions:												
Benefits		230.7		230.6		-		-		-		-
Refunds and distributions		5.9		2.9		10.0		12.7		22.3		26.1
Administrative expenses		3.0		2.7		0.2		0.2		-		-
Total deductions		239.6		236.2		10.2		12.9		22.3		26.1
Total change in net position	$	(20.1)	$	8.8	$	20.7	$	22.8	$	(3.6)	$	8.4

The following schedules provide a comparative summary and an analysis of each Plan's assets, liabilities and net position, at June 30:

Employees' Retirement System
Net Position
(Millions)

	2016		**2015**		**Percentage Change**	
Assets:						
Cash and investments	$	3,829.6	$	3,925.6	(2.5)	%
Receivables		41.7		15.1	176.2	
Capital Assets		0.3		0.6	(50.0)	
Total assets		3,871.6		3,941.3	(1.8)	
Liabilities:						
Benefits payable and other liabilities		5.3		5.7	(7.0)	
Obligations under securities lending agreements		224.7		273.9	(18.0)	
Total liabilities		230.0		279.6	(17.7)	
Total net position	$	3,641.6	$	3,661.7	(0.5)	%

The table shown above reflects a slight decrease of $20.1 million, a 0.5 percent decrease in ERS' net position during fiscal year (FY) 2016.

Retirement Savings Plan Net Position (Millions)			
	2016	2015	Percentage Change
Assets:			
Cash and investments	$ 334.3	$ 313.8	6.5 %
Receivables	1.7	1.5	13.3
Total net position	$ 336.0	$ 315.3	6.6 %

During FY 2016, net position increased 6.6 percent to $336.0 million. The change is primarily due to increased employee and employer contributions due to higher salaries and an increase in the number of new hires versus the prior fiscal year.

Deferred Compensation Plan Net Position (Millions)			
	2016	2015	Percentage Change
Assets:			
Investments	$ 348.1	$ 351.9	(1.1) %
Receivables	0.9	0.7	28.6
Total net position	$ 349.0	$ 352.6	(1.0) %

Net position of the DCP decreased 1.0 percent to $349.0 million during FY 2016. The change is attributable to slightly lower employee contributions during the period.

ADDITIONS

The primary sources of additions for the Plans include member and employer (where applicable) contributions and investment income. The following tables compare the source and amount of additions for each Plan during FY 2016 and FY 2015.

Employees' Retirement System Contributions and Investment Income (Millions)			
	2016	2015	Percentage Change
Employer contributions	$ 134.8	$ 151.3	(10.9) %
Member contributions	27.0	26.6	1.5
Net investment income	57.7	67.1	(14.0)
	$ 219.5	$ 245.0	(10.4) %

Net investment income decreased by 14.0 percent during FY 2016 due to the continued weakness of the financial markets.

The net investment income for the ERS totaled $57.7 million for FY 2016, comprised of $2.9 million in net appreciation in fair value of investments, $70.5 million in dividends and interest, $1.2 million from securities lending activities, and $16.9 million related to investment expenses. This is compared to net investment income of $67.1 million in FY 2015. The decrease in investment earnings compared to the previous fiscal year is due to the continued weakness of the financial markets in FY 2016.

Retirement Savings Plan Contributions and Investment Income (Millions)			
	2016	**2015**	**Percentage Change**
Employer contributions	$ 19.7	$ 18.5	6.5 %
Member contributions	10.7	9.7	10.3
Net investment income	0.5	7.5	(93.3)
	$ 30.9	$ 35.7	(13.4) %

Employer contributions to the RSP were $19.7 in FY 2016, an increase of 6.5 percent from the FY 2015 level due to higher salaries and an increase in the number of new hires versus the prior fiscal year. The higher member contributions in FY 2016 was due to increased rollovers. The lower investment income in FY 2016 is primarily attributable to the continued weakness of the financial markets during the twelve-month period.

Deferred Compensation Plan Contributions and Investment Income (Millions)			
	2016	**2015**	**Percentage Change**
Member contributions	$ 18.8	$ 19.2	(2.1) %
Net investment income (loss)	(0.1)	15.3	(100.7)
	$ 18.7	$ 34.5	(45.8) %

Member contributions to the DCP were $18.8 million for FY 2016, a decrease of 2.1 percent from the FY 2015 level due to fewer rollover contributions.

Net investment income for the DCP was a loss of $0.1 million compared to a gain of $15.3 million in the previous fiscal year. The lower level in FY 2016 is primarily due to weaker returns from the financial markets during the fiscal year.

DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds and distributions, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2016 and 2015.

Employees' Retirement System
Deductions by Type
(Millions)

	2016	2015	Percentage Change	
Benefits	$ 230.7	$ 230.6	0.0	%
Refunds	5.9	2.9	103.4	
Administrative expenses	3.0	2.7	11.1	
	$ 239.6	$ 236.2	1.4	%

During FY 2016, refunds increased by $3.0 million primarily due to increased employee withdrawals at termination of employment versus the prior year.

Retirement Savings Plan
Deductions by Type
(Millions)

	2016	2015	Percentage Change	
Distributions	$ 10.0	$ 12.7	(21.3)	%
Administrative expenses	0.2	0.2	-	
	$ 10.2	$ 12.9	(20.9)	%

The expenses related to the RSP are comprised of distributions and administrative costs. During FY 2016, distributions paid from the RSP decreased 21.3% from the FY 2015 level due to less terminated and/or retired employees electing to withdraw their account balances.

Deferred Compensation Plan
Deductions by Type
(Millions)

	2016	2015	Percentage Change	
Distributions	$ 22.3	$ 26.1	(14.6)	%

During FY 2016, distributions paid from the DCP decreased 14.6% from the FY 2015 level.

For additional information regarding this report, please contact the Board of Investment Trustees at 240-777-8220.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ASSETS			
Equity in County's pooled cash	$ 1,151,082	$ 636,194	$ 9,244
Investments:			
Government and agency obligations	403,510,670	-	-
Municipal/Provincial obligations	15,015,541	-	-
Asset-backed securities	3,713,101	-	-
Corporate bonds	709,062,527	-	-
Collateralized mortgage obligations	840,430	-	-
Commerical mortgage-backed securities	726,834	-	-
Common and preferred stock	1,506,763,258	-	-
Mutual and commingled funds	389,914,184	333,662,465	348,083,230
Short-term investments	94,518,574	-	-
Cash collateral received under securities lending agreements	224,650,451	-	-
Private real assets	196,611,691	-	-
Private equity/debt	283,122,107	-	-
Total investments	3,828,449,368	333,662,465	348,083,230
Dividend, interest, and other receivables	32,931,237	-	-
Contributions receivable	8,727,701	1,693,054	878,384
Capital assets	900,043	-	-
Less accumulated depreciation	600,028	-	-
Net Capital assets	300,015	-	-
Total assets	3,871,559,403	335,991,713	348,970,858
LIABILITIES			
Payable for collateral received under securities lending agreements	224,650,451	-	-
Benefits payable and other liabilities	5,306,338	30,956	-
Total liabilities	229,956,789	30,956	-
Net position restricted for pensions	$ 3,641,602,614	$ 335,960,757	$ 348,970,858

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ADDITIONS			
Contributions:			
Employer	$134,806,256	$ 19,681,949	$ -
Members	27,056,040	10,713,887	18,760,847
Total contributions	161,862,296	30,395,836	18,760,847
Investment income (loss)	73,371,263	504,640	(62,774)
Less investment expenses	16,862,178	4,908	-
Net gain (loss) from investment	56,509,085	499,732	(62,774)
Income from securities lending	1,605,465	-	-
Less securities lending expenses	438,493	-	-
Net income from securities lending	1,166,972	-	-
Total additions	219,538,353	30,895,568	18,698,073
DEDUCTIONS			
Retiree benefits	171,391,248	-	-
Disability benefits	50,287,324	-	-
Survivor benefits	9,017,219	-	-
Refunds and distributions	5,887,137	10,054,841	22,374,067
Administrative expenses	3,014,055	180,886	-
Total deductions	239,596,983	10,235,727	22,374,067
Increase (decrease) in net position	(20,058,630)	20,659,841	(3,675,994)
Net position restricted for pensions			
Beginning of year	3,661,661,244	315,300,916	352,646,852
End of year	$ 3,641,602,614	$ 335,960,757	$ 348,970,858

See accompanying notes to financial statements.

INTRODUCTION

The Montgomery County Employee Retirement Plans (Plans) are offered to Montgomery County (County) employees whose eligibility to participate is based on employment status and other factors. Each of the Plans described below was established under a separate section of the Montgomery County Code (Code). The accompanying notes summarize the significant accounting policies and plan provisions for each of the Plans, including the Employees' Retirement System, a defined benefit pension plan; the Retirement Savings Plan, a defined contribution plan; and the Deferred Compensation Plan, a plan established pursuant to Section 457 of the Internal Revenue Code.

EMPLOYEES' RETIREMENT SYSTEM - Defined Benefit Pension Plan

The Montgomery County Employees' Retirement System (System or Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to public employee retirement systems. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Plan, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP.

A. Plan Description and Contribution Information

Plan Membership. At June 30, 2016, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	6,453
Terminated plan members entitled to but not yet receiving benefits	395
Active plan members	5,513

Plan Administration. The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Eight other agencies and political subdivisions have elected to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

Contributions. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 6 percent to 11.25 percent of regular earnings annually based on group classification and contributions earn interest at the rate of 4 percent per annum as specified under Section 33-39(b) of the Code. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System using the actuarial basis as specified in Section 33-40 of the Code. Employee contributions for the Elected Officials' Plan are 4 percent of regular earnings.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

Benefit Provisions. Benefit provisions are established under the Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement group assigned depends upon the job classification of the member (i.e., non-public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated plan members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group. Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. The System provides options for disability and death benefits to eligible participants. Annual cost-of-living adjustments are provided to retirees and beneficiaries based on the percentage change in the Consumer Price Index.

Deferred Retirement Option Plans (DROP). Legislation enacted by the Montgomery County Council in November 1999 required the Chief Administrative Officer of the County to establish Deferred Retirement Option Plans, or DROP Plans, allowing any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. The assets held by the System pursuant to DROP Plans at June 30, 2016 were $17,575,314.

For members of the GRIP, employee contributions and earnings thereon vest immediately and employer contributions and earnings thereon are vested after three years of service or upon death, disability, or reaching retirement age. At separation, a participant's benefit is determined based upon the account balance which includes contributions and earnings.

B. Summary of Significant Accounting Policies
Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are required to be made as specified under the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the System.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2016. Fair value for private investments funds, including private equity and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's Pooled Cash and Investments. The System maintains its short-term cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the System based on the System's average daily balance of its equity in pooled cash. The County's policy is to fully collateralize the cash maintained in the pool.

Capital Assets. The System reports capital assets, which include computer software, in the Statements of Fiduciary Net Position. The System defines capital assets as assets with an initial, individual cost of $10,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. An asset's cost basis may be adjusted after acquisition due to improvements or impairments to the asset. However, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over three years.

Accounting Changes. GASB Statement No. 72, *Fair Value Measurement and Application*, which was adopted during the year ended June 30, 2016, addresses accounting and reporting issues related to the fair value measurements. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

C. Net Pension Liability

The components of the net pension liability of the System as of June 30, 2016, were as follows:

Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**	**Plan Fiduciary Net Position as a % of Total Pension Liability (b/a)**
$4,182,704,477	$3,641,602,614	$541,101,863	87.06%

Additional information as of the latest actuarial valuation is as follows.

Valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Amortization method for funding	Level percentage of payroll, separate closed period bases for Public Safety and GRIP, single closed period amortization base for non-Public Safety.
Amortization period for funding	For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of 9 years established July 1, 2015. Average amortization period of 10.0 years for total ERS.
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50% per year
Projected salary increases depending on service	3.25%-9.50%
Cost-of-living (inflation rate) adjustments	2.75% on the benefit attributable to credited service earned prior to June 30, 2011. 2.3% on the benefit attribution to credited service earned on or after July 1, 2011, reflecting the 2.5% cap.
Post-retirement Increases	Consumer Price Index - by Group
Mortality rates after retirement	RP-2014 Healthy Annuitant Mortality Table, sex-distinct for healthy mortality. Rates are set forward six years for male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used.

An experience study was conducted for the period July 1, 2009 to July 1, 2014 in September 2015. The results of the experience study have been incorporated into the financial statements where applicable. An actuarial experience study is conducted every five years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major 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. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the System's investment policy) are summarized in the following table:

Asset Class	**Long-Term Expected Real Rate of Return**
Domestic Equities	4.80 %
International Equities	4.80
Emerging Market Equities	4.80
Global Equities	5.00
Private Equity	6.56
Credit Opportunities	5.45
Long Duration Fixed Income	1.75
High Yield Bonds	4.20
Global ILs	1.17
Private Real Assets	6.66
Public Real Assets	4.55
Hedge Funds	4.53
Cash	0.00

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from the County and other participating agencies will be made at contractually required rates, actuarially determined. 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 rate 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 System calculated using the discount rate of 7.5%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	**Current Discount Rate 7.50%**	**1% Increase 8.50%**
Net pension liability	$1,014,371,804	$541,101,863	$142,642,796

D. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the System to be responsible for the investment management of the System's assets for the exclusive benefit of the members. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

E. Investments

Section 33-61C of the Code, authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

The following was the Board's adopted asset allocation policy as of June 30, 2016:

Asset Class	**Target Allocation**	
Domestic Equities	14.40	%
International Equities	11.50	
Emerging Market Equities	2.90	
Global Equities	3.20	
Private Equity	11.00	
Credit Opportunities	4.00	
Long Duration Fixed Income	10.50	
High Yield Bonds	8.00	
Global ILs	12.00	
Private Real Assets	10.00	
Public Real Assets	6.50	
Hedge Funds	5.00	
Cash	1.00	
Total	100.00	%

Rate of Return. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, for FY 2016 was 1.42%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurement. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level III measurements).

Level I– Unadjusted quoted prices for identical assets or liabilities in active markets.
Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.
Level III – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table on the next page shows the fair value leveling of the System's investments.

		Fair Value Measurements Using		
	6/30/2016	**Quoted Prices in Active Markets for Level I**	**Significant Other Observable Inputs Level II**	**Significant Unobservable Inputs Level III**
Investments by fair value level				
Debt securities				
Government and agency obligations	$ 145,848,573	$ -	$ 144,450,769	$ 1,397,804
Municipal/Provincial obligations	15,015,541	-	15,015,541	-
Asset-backed securities	3,713,101	-	3,713,101	-
Corporate bonds	654,995,569	-	636,524,576	18,470,993
Collateralized mortgage obligations	840,430	-	840,430	-
Commercial mortgage-backed securities	726,834	-	726,834	-
Total debt securities	821,140,048	-	801,271,251	19,868,797
Equity securities				
Consumer goods	177,959,094	177,749,222	208,599	1,273
Energy	62,210,336	62,210,336	-	-
Financial services	282,698,946	282,613,862	27,291	57,793
Health care	116,728,312	116,728,312	-	-
Industrials	145,024,032	145,016,441	-	7,591
Information technology	142,289,316	142,289,316	-	-
Materials	49,848,982	49,838,882	-	10,100
Telecommunication services	11,081,607	11,081,485	122	-
Utilities	9,895,078	9,895,078	-	-
Other	552,571	22,322	-	530,249
Total equity securities	998,288,274	997,445,256	236,012	607,006
Total investments by fair value level	1,819,428,322	$ 997,445,256	$ 801,507,263	$ 20,475,803
Investments measured at the net asset value (NAV)				
Commingled equity funds	510,235,176			
Commingled bond funds	312,207,520			
Commingled real asset funds	145,794,154			
Commingled funds (other)	2,763,039			
Hedge funds	238,787,579			
Securities lending collateral fund	224,650,451			
Private real assets	196,611,691			
Private equity/debt	283,122,107			
Total investments measured at the NAV	1,914,171,717			
Short-term investments	94,518,574			
Synthetic guaranteed investments contracts measured at contract value	330,755			
Total investments	$ 3,828,449,369			

Equity securities classified in Level I are valued using prices quoted in active markets for those securities.

Debt securities classified in Level II and Level III are valued using either a bid evaluation, or matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Level II debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Level III debt securities use proprietary information or single source pricing. Equity securities classified in Level II are securities whose values are derived daily from associated traded securities. Equity securities classified in Level III are valued with last trade data having limited trading volume. Short-term investments are cash or cash equivalents and generally include investments in money market-type securities reported at cost plus accrued interest, which approximates market or fair value.

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$ 510,235,176	$ -	Daily, Monthly	0-15 days
Commingled bond funds	312,207,520	-	Daily	1-2 days
Commingled real asset funds	145,794,154	-	Daily, Bi-weekly, Monthly	0-5 days
Commingled funds (other)	2,763,039	-	Daily	None
Hedge funds	238,787,579	-	Monthly, Quarterly	5-125 days
Securities lending collateral fund	224,650,451	-	Daily	None
Private real assets	196,611,691	65,089,315	Not eligible	N/A
Private equity/debt	283,122,107	236,263,149	Not eligible	N/A
Total investments measured at the NAV	$ 1,914,171,717	$ 301,352,464		

Commingled Bond Funds, Equity Funds and Real Asset Funds. Three bond funds, five equity funds and four real asset funds are considered to be commingled in nature. The fair value of the investments in these types of funds has been determined using the NAV per share of the investments.

Hedge Funds. The fair values of the investments in this type have been determined using the NAV per share of the investments. Eight funds are categorized in this category. All funds in this category could be subject to varying degrees of redemption restrictions based on market conditions that may impact their underlying portfolios.

Securities Lending Collateral. The System's custodian is the agent in lending the System's securities for collateral and investments are in a commingled fund.

Private Real Assets. The portfolio consists of twenty private real asset limited partnerships. Private real asset funds include U.S. real estate, oil and gas, timber, agriculture and other real asset investments. The fair value of these funds have been determined using the net asset values as of June 30, 2016. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5 to 10 years.

Private Equity/Debt. The portfolio consists of fifty-one private equity/debt limited partnerships. Private equity funds include buyout, turnaround, fund-of-funds, and growth equity investments. Private debt funds include distressed and structured equity investments. The fair value of these funds have been determined using the net asset values as of June 30, 2016. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 3 to 10 years.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent. As of June 30, 2016, the System's fixed income portfolio had the following sensitivity to changes in interest rates included in the table on the next page:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	18.41	$ 137,626,607	11.22 %
Foreign Government Obligations	1.68	6,824,161	0.56
Asset-Backed Securities	2.23	3,713,100	0.30
Collateralized Mortgage Obligations	(0.19)	840,430	0.07
Commercial Mortgage-Backed Securities	0.85	726,834	0.06
Municipal/Provincial Obligations	15.93	15,015,541	1.22
Corporate Bonds	8.81	639,355,218	52.13
Fixed Income Pooled Funds	N/A	328,767,211	26.81
Short-term Investments and Others *	N/A	93,542,556	7.63
Total Fixed Income Securities		$ 1,226,411,658	100.00 %

*Short-term investments consist of U.S. Treasury and government sponsored securities, money market funds, commercial paper, certificates of deposit, repurchase agreements, asset backed securities, notes and bonds issued by U.S. corporations, and other allowable instruments that meet short-term maturity or average life, diversification, and credit quality restrictions.

Credit Risk/Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines, for the majority of public fund managers, limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2016 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentaage of Portfolio
U.S. Government Obligations*	AAA	$ 137,626,607	11.22 %
Foreign Government Obligations	AAA	690,778	0.06
	A	1,890,462	0.15
	B	999,269	0.08
	Unrated	3,243,652	0.27
Asset-Backed Securities	AAA	3,713,100	0.30
Commercial Mortgage-Backed	B	726,834	0.06
Non-Government Backed C.M.O.s	Unrated	840,430	0.07
Municipal/Provincial Bonds	AAA	1,846,941	0.15
	AA	11,053,492	0.90
	BBB	1,350,851	0.11
	Unrated	764,257	0.06
Corporate Bonds	AAA	6,532,595	0.53
	AA	28,490,143	2.32
	A	141,792,867	11.56
	BBB	167,060,325	13.62
	BB	121,481,999	9.91
	B	116,177,193	9.47
	CCC	33,645,599	2.74
	CC	1,576,767	0.13
	C	11,375	0.00
	D	4,143,287	0.34
	Unrated	18,443,068	1.51
Fixed Income Pooled Funds	Unrated	328,767,211	26.81
Short-term Investments and others	Unrated	93,542,556	7.63
Total Fixed Income Securities		$ 1,226,411,658	100.00 %

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	**Equity**	**Fixed Income**	**Short-term and Other**	**Total Non-U.S. Dollar**
Euro	$ 128,603,712	$ 1,216,355	$ 48,419,910	$ 178,239,977
Japanese yen	130,802,220	-	20,931,390	151,733,610
British pound sterling	74,814,041	-	25,540,434	100,354,475
Swiss franc	25,526,291	-	-	25,526,291
Hong Kong dollar	23,942,652	-	-	23,942,652
Danish krone	13,270,828	-	-	13,270,828
Mexican peso	-	4,198,613	-	4,198,613
Canadian dollar	892,213	-	2,549,221	3,441,434
South Korean won	2,790,366	-	-	2,790,366
Norwegian krone	1,465,135	-	573,300	2,038,435
Other Currencies	41,279,508	3,395,784	(127,435,340)	(82,760,048)
Total International Securities	$ 443,386,966	$ 8,810,752	$ (29,421,085)	$ 422,776,633

Derivatives. In accordance with the Board's Statement of Investment Policy and Objectives, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY 2016, the System invested directly in various derivatives including exchange-traded futures contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The System is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2016, the System held 119 long US Treasury futures contracts with a fair value of $18,647,023 and 172 short US Treasury futures contracts with a fair value of ($26,555,219).

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2016, the System held $686,508,221 buy foreign exchange contracts and ($722,742,107) sell foreign exchange contracts. The unrealized gain on the System's contracts was $1,108,942.

Securities Lending. Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of fiduciary net position. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2016, the fair value of securities on loan was $336,136,121. Cash received as collateral and the related liability of $224,650,451 as of June 30, 2016, is shown on the Statement of Fiduciary Net Position. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $1,605,465 and $438,493, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2016:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
Government Obligations	$ 46,013,506	$ -	$ 46,910,056
Corporate Bonds	64,746,372	-	65,752,597
Equities	110,292,060	-	111,987,798
Lent for Non-Cash Collateral:			
Government Obligations	16,823,306	17,996,448	-
Corporate Bonds	147,054	149,013	-
Equities	98,113,823	104,363,052	-
Total	$ 336,136,121	$ 122,508,513	$ 224,650,451

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

F. Capital Assets

On June 30, 2014, the Employees' Retirement System purchased a computer software system, which was depreciated using a straight-line method over three years as shown below:

	Balance 6/30/2015	Increases	Decreases	Balance 6/30/2016
Depreciable Capital Assets:				
Capital Assets	$ 600,029	$ -	$ 300,014	$ 300,015

G. Allocated Insurance Contract

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. Monthly payments made under this agreement have not been recognized in the System's financial statements.

H. Income Taxes

The Internal Revenue Service issued a determination letter in October 2016, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

RETIREMENT SAVINGS PLAN - Defined Contribution Pension Plan

The Montgomery County Retirement Savings Plan (Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan.

A. Plan Description and Contribution Information

Membership. At June 30, 2016 membership in the Plan consisted of:

Active plan members	3,670
Inactive plan members	954

Plan Description. The Plan, a cost-sharing multiple-employer defined contribution plan, was established in 1994 and is sponsored by the County. Eight other agencies or political subdivisions have elected to participate. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan unless they elect to participate in the GRIP. Eligible employees covered by the Montgomery County Employees' Retirement System may make an irrevocable decision to transfer to this Plan.

Contributions. For fiscal year 2016, under Section 33-116 of the Code, the Plan required non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. In accordance with IRS regulations and the County Code, $300,000 in accumulated revenue was used to reduce employer contributions in FY2016.

Benefit Provisions. Employee contributions and earnings thereon vest immediately and employer contributions and earnings thereon are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment earnings.

B. Summary of Significant Accounting Policies

Basis of Accounting. The Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are required to be made as specified in the County Code. Benefits, refunds and distributions are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the County and participating agencies.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2016.

Equity in County's Pooled Cash and Investments. The Plan maintains its short-term cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the Plan based on the Plan's average daily balance of its equity in pooled cash. The County's policy is to fully collateralize the cash maintained in the pool.

C. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the RSP to oversee the investment program. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2016, the fair value of the mutual and commingled investment funds was $333,662,465, of which $111,128,729 was invested in international mutual funds.

Fair Value Measurement. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level III measurements).

Level I– Unadjusted quoted prices for identical assets or liabilities in active markets.
Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.
Level III – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Plan's investments.

		Fair Value Measurements Using		
	6/30/2016	**Quoted Prices in Active Markets for Level I**	**Significant Other Observable Inputs Level II**	**Significant Unobservable Level III**
Investments by fair value level				
Equity securities	$ 4,502,592	$ 4,502,592	$ -	$ -
Total investments by fair value level	4,502,592	$ 4,502,592	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity funds	54,452,950			
Commingled bond funds	10,079,192			
Commingled funds (other)	258,176,266			
Total investments measured at the NAV	322,708,408			
Synthetic guaranteed investments contracts measured at contract value	6,451,465			
Total investments	$ 333,662,465			

Equity securities classified in Level I are valued using prices quoted in active markets for those securities.

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

Investments Measured at the NAV

		Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$	54,452,950	$	-	Daily	None
Commingled bond funds		10,079,192		-	Daily	None
Commingled funds (other)		258,176,266		-	Daily	None
Total investments measured at the NAV	$	322,708,408	$	-		

Commingled Bond Funds, Equity Funds and Other Funds. Five bond funds and eleven equity funds are considered to be commingled in nature. Other commingled funds include eleven life cycle funds and one other fund. The fair value of the investments in these types of funds have been determined using the NAV per share of the investments.

E. Income Taxes

The Internal Revenue Service issued a determination letter in October 2016, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and are qualified under the applicable provisions of the Internal Revenue Code.

DEFERRED COMPENSATION PLAN

During FY 2005, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

The accompanying financial statements present only the operations of the County Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County. The assets of the Union Plan are not included in the accompanying financial statements since neither the County nor the Board of Investment Trustees (Board) have fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

A. Plan Description and Contribution Information

Plan Description. During 1999, in accordance with Federal legislation, the assets were placed in Trust for the sole benefit of participants and their beneficiaries. Trust responsibilities for the County Plan are assigned to the Board. The Board has a third-party administrator contract to provide investment vehicles and administrative services to plan participants. Under the County Plan, contributions are sent to the providers for different types of investments as selected by the participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings is maintained for each participant by the third-party administrator. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies.

Plan Contributions. In accordance with Section 457 of the IRC, the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of $18,000 in 2015 and $18,000 in 2016 or 100% of the employee's eligible compensation. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Under Section 33-11 of the County Code, all eligible employees hired after July 1, 2008 are automatically enrolled in the Plan with a 1% contribution unless they elect out within 60 days from the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

B. Summary of Significant Accounting Policies

Basis of Accounting. The County Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are made. Distributions are recognized when paid in accordance with the terms of the County Plan, and administrative costs are recognized as incurred.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2016.

C. Trustees of the Plan

The County established a Board to oversee the investment program of the County Plan. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2016, the fair value of the mutual and commingled investment funds was $348,083,230, of which $52,303,983 was invested in international mutual funds.

Fair Value Measurement. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level III measurements).

Level I– Unadjusted quoted prices for identical assets or liabilities in active markets.
Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.
Level III – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Plan's investments.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
	6/30/2016	**Level I**	**Level II**	**Level III**
Investments by fair value level				
Equity securities	$ 8,975,950	$ 8,975,950	$ -	$ -
Total investments by fair value level	8,975,950	$ 8,975,950	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity funds	199,500,896			
Commingled bond funds	37,196,301			
Commingled funds (other)	54,558,616			
Total investments measured at the NAV	291,255,813			
Synthetic guaranteed investments contracts measured at contract value	47,851,467			
Total investments	$ 348,083,230			

Equity securities classified in Level I are valued using prices quoted in active markets for those securities.

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

Investments Measured at the NAV

	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled equity funds	$ 199,500,896	$ -	Daily	None
Commingled bond funds	37,196,301	-	Daily	None
Commingled funds (other)	54,558,616	-	Daily	None
Total investments measured at the NAV	$ 291,255,813	$ -		

Commingled Bond Funds, Equity Funds and Other Funds. Five bond funds and eleven equity funds are considered to be commingled in nature. Other commingled funds include eleven life cycle funds and one other fund. The fair value of the investments in these types of funds have been determined using the NAV per share of the investments.

REQUIRED SUPPLEMENTARY INFORMATION

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

Fiscal year ending June 30,	2016	2015	2014
Total Pension Liability			
Service Cost	$ 70,847,993	$ 74,984,370	$ 70,019,055
Interest on the Total Pension Liability	300,076,908	291,040,049	281,988,785
Benefit Changes	-	3,626,601	-
Difference between Actual and Expected Experience	(34,032,308)	602,431	-
Assumption Changes	-	(12,706,870)	-
Benefit Payments	(230,695,791)	(230,646,729)	(229,664,720)
Refunds	(5,887,137)	(2,874,357)	(4,329,834)
Net Change in Total Pension Liability	100,309,665	124,025,495	118,013,286
Total Pension Liability - Beginning	4,082,394,812	3,958,369,317	3,840,356,031
Total Pension Liability - Ending (a)	$ 4,182,704,477	$ 4,082,394,812	$ 3,958,369,317
Plan Fiduciary Net Position			
Contributions - Employer	$ 134,806,256	$ 151,301,867	$ 144,709,675
Contributions - Member	27,056,040	26,627,493	26,462,839
Net Investment Income	57,676,057	67,070,433	534,397,733
Benefit Payments	(230,695,791)	(230,646,729)	(229,664,720)
Refunds	(5,887,137)	(2,874,357)	(4,329,834)
Administrative Expense	(3,014,055)	(2,684,560)	(2,953,807)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	(20,058,630)	8,794,147	468,621,886
Plan Fiduciary Net Position - Beginning	3,661,661,244	3,652,867,097	3,184,245,211
Plan Fiduciary Net Position - Ending (b)	$ 3,641,602,614	$ 3,661,661,244	$ 3,652,867,097
Net Pension Liability - Ending (a) - (b)	541,101,863	420,733,568	305,502,220
Plan Fiduciary Net Position as a Percentage of Total Pension	87.06%	89.69%	92.28%
Covered Employee Payroll *	$ 427,622,475	$ 418,728,584	$ 402,899,096
Net Pension Liability as a Percentage of Covered Employee Payroll	126.54%	100.48%	75.83%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2007	$ 109,436,001	$ 109,436,001	-	$ 352,636,518	31.03 %
2008	117,686,375	117,686,375	-	372,214,906	31.62
2009	109,567,014	109,567,014	-	376,895,171	29.07
2010	113,957,784	113,957,784	-	431,226,155	26.43
2011	109,343,933	109,343,933	-	405,336,529	26.98
2012	107,855,595	107,855,595	-	398,460,248	27.07
2013	127,887,620	127,887,620	-	395,988,026	32.30
2014	144,709,675	144,709,675	-	402,899,096	35.92
2015	151,301,867	151,301,867	-	418,728,584	36.13
2016	134,806,256	134,806,256	-	427,622,475	31.52

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Date:	July 1, 2015
Notes	Actuarially determined contribution rates are calculated as of July 1, 2013 which is 24 months prior to the end of the fiscal year in which contributions are reported. Assumptions were updated in the 2015 valuation, which first affects fiscal year 2017 contributions.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level percentage of pay, separate closed period bases
Remaining Amortization Period	Initial amortization period of 18 years for the base established July 1, 2010. Initial amortization period of 20 years for subsequent bases. Average amortization period of 13 years.
Asset Valuation Method	5-year smoothed market
Inflation	2.75% per year
Salary Increases	3.25%-9.50%
Investment Rate of Return	7.50% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition and years of service. Last updated for the 2015 valuation pursuant to an experience study of the period 2009-2014.
Mortality	RP-2014 Healthy Annuitant Mortality Table, sex-distinct for healthy mortality. Rates are set forward six years for the male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used.

Other Information:

Notes	Effective July 1, 2015, a DROP was implemented for eligible uniformed correctional officers and sworn deputy sheriffs participating in Group E. Effective July 1, 2015, updated actuarial assumptions were used in the valuation, which first affect fiscal year 2017 contributions and are summarized above.

Amortization Period (beginning with the valuation as of July 1, 2015): For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of nine years established July 1, 2015.

SCHEDULE OF INVESTMENT RETURNS

Fiscal year ending June 30	2016	2015	2014
Annual money weighted rate of return, net of investment expense	1.42%	2.19%	16.95%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF ADMINISTRATIVE EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

Personnel Services:	
Salaries and wages	$ 1,257,745
Retirement contributions	83,460
Insurance	116,631
Social security	84,313
Total personnel services	1,542,149
Professional Services:	
Actuarial	227,158
Independent public accountants	44,644
Outside legal	57,825
Computer technical support	137,594
Other professional services	7,864
Total professional services	475,085
Benefit Processing:	
Disbursement services	36,600
Recordkeeping services	109,456
Disability management	449,861
Total benefit processing	595,917
Due diligence and continuing education	22,819
Office Management:	
Office equipment and supplies	76,082
Depreciation expense	300,014
Miscellaneous	1,989
Total office management	378,085
Total administrative expenses	$ 3,014,055

SCHEDULE OF INVESTMENT EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

Investment Management Expenses:	
Aberdeen Asset Management Inc	$ 994,603
Barrow Hanley Mewhinney & Straus LLC	516,404
BlackRock Financial Management	298,933
Bridgewater Associates	3,638,505
Chickasaw Capital Management LLC	219,200
CoreCommodity Management LLC	103,483
Eagle Asset Management	510,302
First Quadrant L.P.	300,000
Gryphon International Investment	845,357
Jennison Associates LLC	602,357
JP Morgan Investment Management	765,448
Los Angeles Capital Management	417,096
Loomis Sayles	842,030
Marathon London	1,116,465
Mondrian Investment Partners Ltd.	675,310
Nomura Asset Management	797,967
RhumbLine Advisors	14,137
Sands Capital Management	662,607
Schroder Investment Management	443,193
Wellington Management	621,784
Wellington Trust Company	229,109
The Northern Trust Company	434,546
Abel Noser Corp.	5,000
Aetna Life Insurance Company	2,961
Albourne America LLC	400,000
Bloomberg Financial Systems	17,556
Flag Capital Management LLC	550,000
Franklin Park	525,000
MSCI	11,500
Wilshire Associates	301,325
Total investment management expenses	16,862,178
Securities lending borrower rebates	232,900
Securities lending agent fees	205,593
Total securities lending expenses	438,493
Total investment expenses	$ 17,300,671

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Equity in County’s pooled cash	$ 1,151,082	$ 981,456
Investments:		
Government and agency obligations	403,510,670	395,527,073
Municipal/Provincial bonds	15,015,541	12,358,783
Asset-backed securities	3,713,101	3,464,339
Corporate bonds	709,062,527	656,471,268
Collateralized mortgage obligations	840,430	-
Commercial mortgage-backed securities	726,834	-
Common and preferred stock	1,506,763,258	1,455,833,853
Mutual and commingled funds	389,914,184	365,620,792
Short-term investments	94,518,574	119,853,979
Cash collateral received under securities lending agreements	224,650,451	273,912,882
Real assets	196,611,691	380,180,632
Private equity/debt	283,122,107	261,364,506
Total investments	3,828,449,368	3,924,588,107
Dividend, interest, and other receivables	32,931,237	6,640,354
Contributions receivable	8,727,701	8,443,224
Capital assets	900,043	900,043
Less accumulated depreciation	600,028	300,014
Net Capital Assets	300,015	600,029
Total assets	3,871,559,403	3,941,253,170
LIABILITIES		
Payable for collateral received under securities lending agreements	224,650,451	273,912,882
Benefits payable and other liabilities	5,306,338	5,679,044
Total liabilities	229,956,789	279,591,926
Net Position restricted for pensions	$ 3,641,602,614	$ 3,661,661,244

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
ADDITIONS		
Contributions:		
Employer	$ 134,806,256	$ 151,301,867
Members	27,056,040	26,627,493
Total contributions	161,862,296	177,929,360
Investment Income:		
Net appreciation in fair value of investments	2,895,480	22,807,866
Dividends and interest	70,475,783	65,680,347
Total income from investment activities	73,371,263	88,488,213
Less investment expenses	16,862,178	22,506,400
Net income from investment activities	56,509,085	65,981,813
Income from securities lending	1,605,465	1,156,632
Less securities lending expenses	438,493	68,012
Net income from securities lending	1,166,972	1,088,620
Total additions	219,538,353	244,999,793
DEDUCTIONS		
Retiree benefits	171,391,248	171,784,946
Disability benefits	50,287,324	49,879,651
Survivor benefits	9,017,219	8,982,132
Refunds and distributions	5,887,137	2,874,357
Administrative expenses	3,014,055	2,684,560
Total deductions	239,596,983	236,205,646
Net increase (decrease) in net position	(20,058,630)	8,794,147
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	3,661,661,244	3,652,867,097
Ending of year	$ 3,641,602,614	$ 3,661,661,244

RETIREMENT SAVINGS PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Equity in County’s pooled cash	$ 636,194	$ 671,139
Investments	333,662,465	313,170,346
Contributions receivable	1,693,054	1,483,331
Total assets	335,991,713	315,324,816
LIABILITIES		
Accrued expenses	30,956	23,900
Net position held in trust for pension benefits	$ 335,960,757	$ 315,300,916

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
ADDITIONS		
Contributions:		
Employers	$ 19,681,949	$ 18,502,353
Members	10,713,887	9,728,222
Total contributions	30,395,836	28,230,575
Investment income	212,203	7,050,419
Other income	292,437	447,749
Net investment income	504,640	7,498,168
Less investment expenses	4,908	5,437
Total additions	30,895,568	35,723,306
DEDUCTIONS		
Distributions	10,054,841	12,693,995
Administrative expenses	180,886	235,300
Total deductions	10,235,727	12,929,295
Net increase	20,659,841	22,794,011
Net position - beginning of year	315,300,916	292,506,905
Net position - end of year	$ 335,960,757	$ 315,300,916

DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Equity in County's pooled cash	$ 9,244	$ -
Investments	348,083,230	351,892,072
Contributions receivable	878,384	754,780
Total position and net position held in trust for pension benefits	$ 348,970,858	$ 352,646,852

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
ADDITIONS		
Contributions - members	$ 18,760,847	$ 19,228,978
Investment income (loss)	(62,774)	15,258,958
Total additions	18,698,073	34,487,936
DEDUCTIONS		
Distributions	22,374,067	26,122,796
Total deductions	22,374,067	26,122,796
Net increase (decrease)	(3,675,994)	8,365,140
Net position - beginning of year	352,646,852	344,281,712
Net position - end of year	$ 348,970,858	$ 352,646,852

INVESTMENT SECTION

Employees' Retirement System

EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board of Investment Trustees (Board), and the investment staff, are responsible for managing the $3.6 billion Employees' Retirement System (the System), invested solely in the interests of its beneficiaries. It is a significant responsibility due to the majority of the average retiree's benefit coming from investment earnings on contributions from members, the County, and participating agencies. According to Wilshire Associates, a national consulting firm, the median return among U.S. public pension plans over $1 billion in size in FY 2016 was a gain of 0.97%, gross of fees. The System's return for the fiscal year was a gain of 1.90% gross of fees, ranking top quartile in the universe. The key drivers of the performance for the twelve month period ending June 30, 2016 were the System's private equity and public fixed income holdings. The same study ranked the System's three-year gain of 7.25% in the second quartile and its five-year return of 7.57% in the top quartile of this universe. The gross return for the one-year period was below the performance benchmark established by the Board by 85 basis points, with returns for the three-year and five-year periods exceeding the performance benchmarks by 77 basis points and 89 basis points, respectively. Returns for the System are calculated on a time weighted basis (except where noted on page 52).

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the System. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets.

Specific investment objectives include:

- To realize the actuarial assumed rate of return of 7.5 percent.
- To manage portfolio risk so as to limit potential downside fluctuations in the value of the total System assets.
- To realize as high a rate of total return as possible consistent with the above.

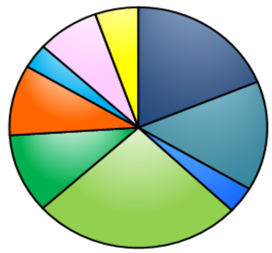
To achieve these objectives, the following investment policies are employed:

- Allocate System assets to a broad array of investment sectors and strategies.
- Maintain the asset allocation in compliance with the Board's rebalancing policy (+/- 5% for major asset classes and +/- 1.5% to 3% for sub-asset classes).
- Monitor the individual investment managers' market value to ensure compliance with the Board's Manager Funding Policy.
- Evaluate the performance of all investment managers against their specific performance and style objectives, assigned risk, and the returns achieved by other similar managers.
- Evaluate the System's overall risk exposure and modify investments through rebalancing when necessary.

During FY 2016, the Board continued to implement portfolio strategies and the hiring of investment managers which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, the Board approved new investments in the following sectors: public equities, private equity, private real assets, public real assets, and opportunistic.

The following pages reflect comments on the investment portfolio and were prepared by the Board.

ASSET ALLOCATION – JUNE 30, 2016



INVESTMENT PERFORMANCE SUMMARY

	ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2016		
	1 Year	**3 Year**	**5 Year**
Total Fund Time-Weighted Returns			
MCERS	1.90[A] %	7.25[A] %	7.57[A] %
Policy Benchmark	2.75[A]	6.48[A]	6.68[A]
Total Domestic Equities			
MCERS	(1.85)	10.76	11.44
Russell 3000 Benchmark	2.14	11.13	11.60
Total Private Equities			
MCERS	6.80[B]	14.30[B]	10.90[B]
Russell 3000 + 300 Bpts Benchmark	4.50[B]	14.90[B]	14.90[B]
Total International Equities			
MCERS	(8.29)	2.76	2.63
Custom International Equity Benchmark	(10.17)	1.19	0.12
Total Global Equities			
MCERS	(3.78)	2.05	N/A
MSCI All Country World Benchmark	(3.73)	6.03	N/A
Total Private Real Assets			
MCERS	10.96[B]	13.16[B]	11.43[B]
CPI + 500 Bpts Benchmark	6.04[B]	6.10[B]	6.32[B]
Total Private Debt			
MCERS	11.80[B]	11.50[B]	N/A
BofA ML U.S. HY Cons. + 300 Bpts Benchmark	5.50[B]	5.00[B]	N/A
Total Fixed Income			
MCERS	9.21	7.84	8.29
Custom Fixed Income Benchmark	9.26	6.91	7.36
Total Opportunistic			
MCERS	(6.19)[C]	0.48[C]	1.99[C]
HFRI Fund of Funds Benchmark	(5.89)[C]	2.22[C]	1.81[C]
Total Public Real Assets			
MCERS	(0.80)	(2.24)	N/A
Custom Public Real Asset Benchmark	(0.84)	(1.53)	N/A
Total Global Inflation Indexed Bonds			
MCERS	6.86	10.70	10.95
Custom IIB Benchmark	12.30	8.83	8.24

Return data for the System was calculated on a time weighted basis (except where noted). Returns shown are provided by the System's custodian bank, The Northern Trust Company. Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. Returns are gross of fees paid to investment managers except where noted.

A: Total Fund returns utilize lagged valuations for private equity, private debt, and private real assets investments.

B: Returns computed on dollar-weighted basis and are net of investment management fees.

C: Returns computed net of investment management fees and lagged valuations.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2016 represented approximately 37.1% of the total Fund, split between Domestic Equity at 18.8%, International Equity at 14.7%, and Global Equity at 3.6%. The Domestic Equity Portfolio underperformed the Russell 3000 Benchmark by 3.99% for the one year ending June 30, 2016. U.S. equity markets struggled during the first seven months of the fiscal year due to continued weakness in the energy sector in addition to concerns about U.S. Dollar strength and the trajectory of the Federal Reserve's interest rate hikes. U.S. equity markets entered correction territory in February before rallying significantly to finish the fiscal year in positive territory. The rally was driven by recovering energy prices, a weakening U.S. Dollar, and indications that the Fed would show restraint in further increasing the Fed Funds Rate. The markets were led by the utilities, telecom, and consumer staples sectors, which benefit from continued low interest rates, while the financials, energy, materials, and health care sectors finished down for the fiscal year.

As of June 30, 2016, the International Equity Portfolio was allocated as follows: 71.9% EAFE, 18.7% emerging markets, and 9.4% small capitalization stocks. The International Equity Portfolio outperformed the custom international equity benchmark by 1.88% for the fiscal year ending June 30, 2016. International markets struggled during the fiscal year with both international developed markets and emerging markets finishing down double digits. Much like U.S. equity markets, international markets sold off sharply in the first half of the fiscal year and rallied strongly in the second half. Despite accommodative central bank policy in Europe and Japan, which includes negative short-term interest rates, economic growth and inflation failed to gain momentum during the fiscal year. Emerging markets trailed both the U.S. and international developed markets due primarily to China, which sold off more than 20% during the fiscal year on concerns about decreasing economic growth, particularly within the manufacturing sector.

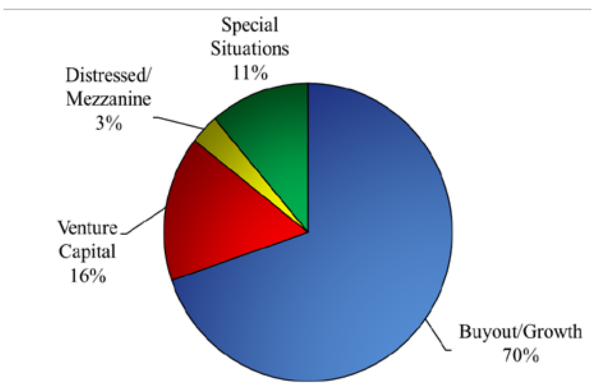
Equity: Top 15 Holdings

The top 15 holdings in the Public Equity Portfolio comprised 3.1% of ERS assets at June 30, 2016. In comparison to the top 15 holdings of last year, Facebook, VISA, Novartis, Fresenius, Koninklijke Ahold, Salesforce.com, Seven & I Holdings, Inditex, ING Groep, Smith (DS), and Adecco remained while Total, AIA Group, Amazon.com, and Toray were added.

Equity	Shares	Value
Facebook	86,369	9,870,249
VISA	132,344	9,815,954
Novartis	116,215	9,561,314
Fresenius	126,172	9,226,041
Koninklijke Ahold	385,782	8,528,832
Salesforce.Com	102,582	8,146,037
Total	153,329	7,389,386
Seven & I Holdings	162,100	6,764,305
Inditex	201,187	6,685,145
AIA Group	1,116,800	6,672,340
Amazon.Com	9,134	6,536,473
ING Groep	598,566	6,103,823
Smith(DS)	1,135,090	5,861,671
Toray Industries	691,000	5,855,887
Adecco	116,559	5,849,486

PRIVATE EQUITY

The System began investing in private equity in 2003 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. At June 30, 2016, the Private Equity Portfolio comprised 7.2% of total Fund assets, and approximately 66% of the dollars committed had been called. On a long-term basis, the Private Equity program seeks to outperform the Russell 3000 Index by 3%. System returns are calculated on a dollar-weighted or internal rate-of-return (IRR) basis, and the annualized return since inception (2003) through June 30, 2016 was 8.9%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same period was 11.4%.



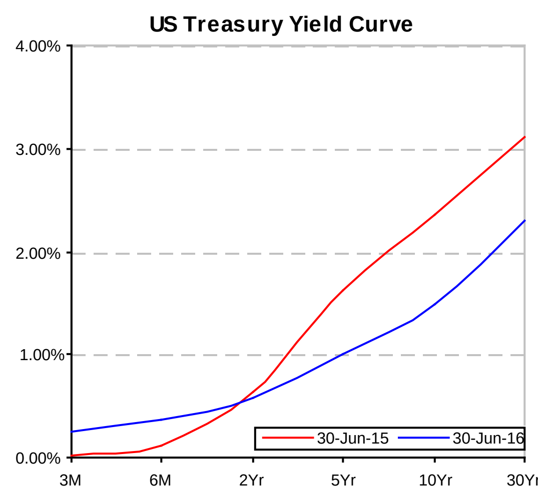
As compared to the prior fiscal year, U.S. buyout investment activity related to invested capital was up while the number of deals saw a decline. Buyout fundraising accelerated during the latter part of the fiscal year. U.S. venture investment activity continued to cool down from mid-2015 peaks both in terms of deals completed and dollar invested. However, U.S. venture fundraising is on pace to exceed the post-crisis peak of $31 billion in 2014. The exit environment of buyout investments slowed after an active 2015 while venture continued to see steady exit activity. Purchase valuations were in line versus the prior fiscal year while leverage fell slightly from the peaks of the previous two years.

PRIVATE DEBT

The System began investing a portion of its portfolio in Private Debt in 2014 to enhance returns and further diversify the portfolio. The market value of the Private Debt Portfolio as of June 30, 2016 represented approximately 0.6% of the total Fund, and to date, approximately 55% of the committed capital has been called. On a dollar weighted, or IRR basis, the portfolio returned 11.8% for the fiscal year, outperforming the benchmark index, Bank of America Merrill Lynch U.S. High Yield Master Constrained Index plus 3%, by 6.3%.

The MCERS portfolio consists of managers who specialize in making direct loans to privately held middle-market companies in need of less dilutive forms of growth capital. Direct (levered) loan issuance cooled in FY16 as interest rate concerns, commodity price declines, and volatility caused yields to rise. MCERS private debt managers also purchase debt securities in the secondary markets which may be distressed in an effort to restructure workout solutions with the borrowers. The current opportunity set for distressed investments remains subdued, as the U.S. default rate remains below the 20-year average of approximately 4.5%.

FIXED INCOME



The System invests a portion of its portfolio in fixed income securities to reduce total Fund volatility, produce income and provide a measure of protection in the event of a slowing economic environment, in which these lower volatility assets should provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2016 represented approximately 26.2% of the total Fund. The Fixed Income Portfolio returned 9.21%, roughly in-line with the benchmark's return of 9.26% during the fiscal year. High yield and long duration investments represent approximately 9.8% and 13.3%, of total Fund assets, respectively.

In December 2015, the Federal Reserve voted to increase the Federal Funds Rate by 25 bps for the first time since 2006, which is evidenced by a rise in the short-end of the yield curve (see chart to the right). The market initially priced in further interest rate hikes throughout the remainder of the fiscal year; however, a continued slowdown in global growth prompted the Fed to refrain from further monetary policy tightening. As market volatility increased during the beginning of calendar year 2016, longer-term yields fell sharply and the yield curve flattened as investors moved funds into safe-haven assets. As of June 30, 2016, the 10-year treasury yield stood at 1.49%, or 86 bps lower than the same period one-year ago. Negative interest rates in pockets of developed Europe's largest bond markets drove significant foreign capital into U.S. Treasuries, increasing prices and causing yields to decline further. A flattening long-end of the yield curve is generally indicative of investor's expectations for lower economic growth and inflation going forward.

Fixed Income: Top 15 Holdings

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
United States Treasury Bonds	3.000 %	May 15, 2045	$ 29,142,243
United States Treasury Bonds	2.500	February 15, 2045	22,904,926
United States Treasury Bonds	2.875	August 15, 2045	17,151,037
United States Treasury Bonds	2.875	May 15, 2043	17,024,809
United States Treasury Bonds	3.125	August 15, 2044	14,682,081
United States Treasury Bonds	3.000	November 15, 2045	10,739,543
United States Treasury Bonds	2.500	February 15, 2046	9,584,024
GE Capital International	4.418	November 15, 2035	7,673,891
HSBC	7.000	January 15, 2039	7,166,842
United States Treasury Bonds	2.125	May 15, 2025	6,875,385
Wells Fargo	5.606	January 15, 2044	6,331,746
Bank of America	6.000	October 15, 2036	6,120,070
United States Treasury Bonds	2.250	November 15, 2024	5,811,485
Verizon Communications	4.672	March 15, 2055	4,990,445
Metlife	5.875	February 6, 2041	4,585,054

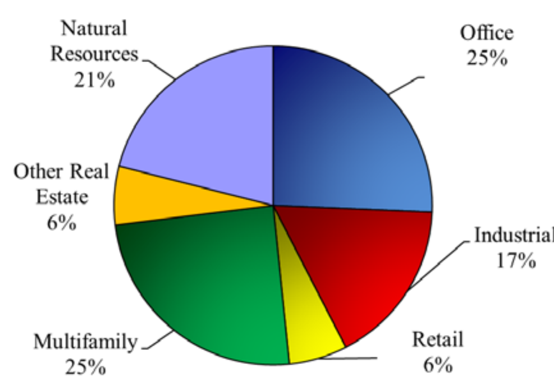
OPPORTUNISTIC

The System invests a portion of its portfolio in absolute return strategies (hedge funds) to enhance returns and reduce total fund volatility. The market value of the Opportunistic Portfolio as of June 30, 2016 represented approximately 3.3% of the total Fund. The Portfolio underperformed the benchmark return by 0.30%.

Within the hedge fund universe, performance for most strategies was negative for the fiscal year as equity long short, event driven and relative value strategies declined by 5.0%, 3.8%, and 0.2%, respectively. In contrast, directional strategies benefitted from additional volatility and dispersion across asset classes and gained 1.9% for the fiscal year.

PRIVATE REAL ASSETS

The System began investing in value-added and opportunistic private real estate and natural resources in 2006 to attain real returns less correlated with the broad public securities markets. Returns are computed on a dollar-weighted or internal rate-of-return basis, and from inception (2006) to June 30, 2016 the investments generated an annualized gain of 5.0%. By comparison, the dollar-weighted return for the benchmark CPI + 5% for the same period was a gain of 6.6%. The Private Real Assets Portfolio comprised 5.4% of the Fund at June 30, 2016 with approximately 82% of the dollars committed called.



During the fiscal year, real estate transaction activity increased significantly and capitalization rates declined across all major property types (multi-family, industrial, retail and office) in the United States. Domestic energy investments declined noticeably as many upstream oil and gas companies decreased capital expenditure programs due to lower energy prices.

PUBLIC REAL ASSETS

The market value of the total Public Real Assets Portfolio as of June 30, 2016 represented approximately 9.5% of the total Fund and was allocated as follows: 63.0% global real estate securities, 29.1% commodities, and

7.9% master limited partnerships (MLPs). The System began investing in Public Real Assets in January 2009 to further diversify the portfolio to reduce risk and to provide a hedge against inflation.

Listed global real estate security prices advanced strongly during the fiscal year on dovish global monetary bank policies, improving fundamentals, and strong capital flows from investors seeking higher yielding assets. For the fiscal year, commodity futures broadly declined on continued U.S. dollar strength, deflationary concerns in Europe, and the slowing of the Chinese economy. However commodities experienced a meaningful rebound in the final quarter of the fiscal year due to improving supply and demand fundamentals. MLPs declined for the fiscal year due to steep declines in oil and gas prices. However MLPs experienced a strong price recovery in the last quarter of the fiscal year due to improving sentiment as oil and gas prices rebounded. For the fiscal year, the public real asset portfolio outperformed the custom benchmark by 0.04%.

Global Inflation-Indexed Bonds

The System allocates a portion of Fund assets to inflation-indexed bonds which provide protection against inflation risk as well as providing a diversified return stream to manage volatility. The Inflation-Indexed Bond Portfolio represented 10.7% of total Fund assets at June 30, 2016. The Portfolio, which also includes an absolute return fund, returned 6.86% during the fiscal year, underperforming the benchmark's return of 12.30%.

The returns on global inflation-indexed bonds were positive during the fiscal year, as real yields, used to measure the change in purchasing power, declined and moved into negative territory across much of the developed world. However, performance of the total portfolio was negatively impacted from the opportunistic allocations made by the absolute return fund to nominal bonds, developed market equities, currencies, and corporate credit.

Inflation-Indexed Bonds - Country Exposures		
United States	45	%
United Kingdom	20	
Canada	10	
France	10	
Germany	7	
Sweden	5	
Australia	3	

INVESTMENT MANAGERS

The diversified investment structure as of June 30, 2016 is reflected in the following table, which lists System managers by asset class and style.

Public Equity	Investment Style
Domestic Equity	
Eagle Asset Management	Small Cap Growth
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value
JP Morgan Investment Management*	Large Cap Core Plus
Los Angeles Capital Management*	Large Cap Alpha
RhumbLine Advisors	Russell 1000 Index
Sands Capital Management	Large Cap Growth
Wellington Management	Small Cap Value
International Equity	
Gryphon Int'l Investment Corp.	EAFE
Highclere Int'l Investors LLP*	Small Cap
Marathon Asset Management LLP	EAFE
Mondrian Investment Partners Ltd*	Emerging Markets
Global Equity	
Aberdeen Asset Management*	Global

Private Real Assets	Investment Style
Aberdeen*	Fund-of-Funds
AEW Partners*	Real Estate
Carmel Partners*	Real Estate
EnerVest, Ltd.*	Energy
Hampshire Companies*	Real Estate
Homestead Capital*	Agriculture
Juniper Capital LP*	Energy
LBA Realty*	Real Estate
Lime Rock Resources*	Energy
Lyme Timber Company*	Timber
Meridian Realty Partners*	Real Estate
Pearlmark Real Estate Ptrs*	Real Estate
Resource Land Holdings*	Diversified Natural Reources
TA Associates Realty LLC*	Real Estate

Public Real Assets	Investment Style
BlackRock Financial Mgt.*	Commodities
BlackRock Financial Mgt.*	Real Estate
Chickasaw Capital Management	MLPs
CoreCommodity Mgt.*	Commodities
Cornerstone Real Estate Advisers	Real Estate
Wellington Management*	Commodities

Private Debt	Investment Style
Castlelake*	Distressed
Clearlake Capital Group*	Distressed/Pvt Equity/Tnrnd
Levine Leichtman Capital Partners*	Structured Equity
PineBridge Investments LLC*	Structured Equity

Opportunistic	Investment Style
GMO, LLC*	Global Macro
Grosvenor Capital Management*	Fund-of-Funds
Hudson Bay Capital Mgmt*	Relative Value
Luxor Capital Partners*	Event Driven
MKP Opportunity Partners*	Global Macro
Och-Ziff Opportunity Partners*	Multi-Strategy
Scopia Capital Management*	Equity Long/Short

Private Equity	Investment Style
Adams Street Partners*	Fund-of-Funds
Altus Capital Partners*	Buyout
Altaris Capital Partners*	Buyout
Atlas Capital Resources*	Turnaround
DW Healthcare Partners*	Buyout
Franklin Park*	Fund-of-Funds
J.F. Lehman & Company*	Buyout
HarbourVest Partners*	Fund-of-Funds
K1 Investment Mgmt. LLC*	Growth/Buyout
KPS Capital Partners*	Turnaround
Landmark Partners, Inc.*	Fund-of-Funds
Mason Wells*	Buyout
Odyssey Inv. Partners*	Buyout
Pomona Capital*	Fund-of-Funds
Riverside Partners*	Buyout
Siris Capital Group LLC*	Buyout
Sunstone Partners*	Growth Equity
TA Associates*	Growth Equity
Thoma Bravo*	Buyout
Wicks Group*	Buyout

Fixed Income	Investment Style
BlackRock Financial Mgt.*	Core
Loomis Sayles & Co.	High Yield
Jennison Associates	Long Duration
Nomura Asset Management	High Yield
Schroder Investment Mgt.	Long Duration

Inflation-Indexed Bonds	Investment Style
Bridgewater Associates*	Passive

Foreign Currency	Investment Style
First Quadrant LP*	Foreign Currency

* Pooled Funds

PUBLIC EQUITY COMMISSIONS

January 1, 2015 Through December 31, 2015

Brokers	Commissions (thousands)
Deutsche Bank	$ 29
Sanford Bernstein	19
UBS	12
JPM	11
Society Generale	11
Goldman Sachs	10
Merrill Lynch Pierce Fenner & Smith	9
Joh. Berenberg, Gossler	9
Weeden and Co	8
Parel	8
Jefferies and Co	8
Other Brokers (85 brokers)	102
Total	**$ 236**

INVESTMENT SUMMARY

	2016 Fair Value	Percent of Total Value	2015 Fair Value	Percent of Total Value
Government and agency obligations	$ 403,510,670	11.20 %	$ 395,527,073	10.84 %
Municipal/Provincial obligations	15,015,541	0.42	12,358,783	0.34
Asset-backed securities	3,713,101	0.10	3,464,339	0.09
Corporate bonds	709,062,527	19.67	656,471,268	17.98
Collateralized mortgage obligations	840,430	0.02	-	-
Commerical mortgage-backed securities	726,834	0.02	-	-
Common and preferred stock	1,506,763,258	41.81	1,455,833,853	39.88
Mutual and commingled funds	389,914,184	10.82	365,620,792	10.02
Short-term investments	94,518,574	2.62	119,853,979	3.28
Private real assets	196,611,691	5.46	380,180,632	10.41
Private equity/debt	283,122,107	7.86	261,364,506	7.16
Total	$ 3,603,798,917	100.00 %	$ 3,650,675,225	100.00 %

Cash collateral received under securities lending agreements is not included in the investment summary shown above.

ACTUARIAL SECTION

Employees' Retirement System

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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www.gabrielroeder.com

November 23, 2016

Ms. Linda Herman
Executive Director
Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor
Rockville, MD 20850

Dear Linda:

At your request, we have performed an actuarial valuation for funding purposes and a separate actuarial valuation for accounting purposes of the Montgomery County Employees' Retirement System ("System") as of July 1, 2016. The purpose of the funding actuarial valuation, which is performed annually, is to determine the funding status and annual contribution requirements of the System. The actuarial valuations were performed specifically at your request and are intended for use by the System and Montgomery County ("County") and those designated by the System and the County. This report may be provided to parties other than the System and County only in its entirety and only with the permission of the System and County. GRS is not responsible for reliance upon this valuation for any other purpose, or by any other party.

Funding Objective

The funding objective for the System is to collect employer and employee contributions sufficient to pay the benefits of the Montgomery County Employees' Retirement System when due and to achieve a funded ratio of 100 percent at the end of the amortization period. The total contribution rate is equal to the normal cost rate plus amortization of the unfunded liability as a level percentage of payroll. The unfunded liability as of July 1, 2015, for the Non-Public Safety groups (Groups A and H) was amortized over a closed period of 9 years (8 years remaining at the actuarial valuation as of July 1, 2016) and the unfunded liability base established as of July 1, 2016, was amortized over an 8-year closed period. The unfunded liability as of July 1, 2015, for the Public Safety groups (Groups E, F and G) and GRIP was amortized over a closed period of 20 years (19 years remaining at the actuarial valuation as of July 1, 2016) and the unfunded liability base established as of July 1, 2016, was amortized over a 20-year closed period. The single equivalent amortization period for the System in total as of July 1, 2016, is 10.0 years. This funding policy is consistent with generally accepted actuarial standards for the funding of retirement systems. The total contribution rate minus the average employee contribution rate equals the County contribution rate. The funding actuarial valuation as of July 1, 2016, establishes the County contribution rate for fiscal year beginning July 1, 2017.

Actuarial Assumptions and Methods

The actuarial cost method used in this valuation is the same as the method used in the prior actuarial valuation. The actuarial method utilized by the System for both non-GRIP and GRIP members is the individual Entry-Age Normal method. The objective of this method is to finance the benefits of the System as a level percentage of payroll over the members' careers. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL. The actuarial assumptions used in the actuarial valuation as of July 1, 2016, are the same as those used in the actuarial valuation as of July 1, 2015. The actuarial assumptions are based on an experience review for the five-year period ending July 1, 2014.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and asset method, are in conformity with the Actuarial Standards of Practice issued by the Actuarial Standards Board for the funding of public sector pension plans and are set by the County. Assumptions and methods required under GASB Statement 67 and 68 were used in the preparation of the accounting disclosures and schedules required by GASB 67 and 68.

Benefit Provisions
There have been no plan changes reflected in the actuarial valuation as of July 1, 2016, since the actuarial valuation at July 1, 2015.

Participant Data
A total of 5,513 active members (excluding DRSP and DROP) were included in the actuarial valuation as of July 1, 2016. Between the 2015 and 2016 actuarial valuations, the number of active employees decreased by 28 members, or 0.5 percent. The average annual actuarial valuation pay (excluding DRSP and DROP) increased by 2.6 percent, from $75,569 to $77,566 between the 2015 and 2016 actuarial valuation. The number of benefit recipients (including DRSP and DROP) increased from 6,380 to 6,453, or 1.1 percent, since the last actuarial valuation. The average monthly benefit increased by 1.1 percent, from $3,077 to $3,110.

Aetna Contract
There is a group of retirees who have benefits that are insured by Aetna. The total benefit amounts reported for these members in the actuarial valuation report include the insured benefit amount. The actuarial liabilities calculated in the actuarial valuation report exclude the value of the insured benefits. The liabilities for these members that are included in the actuarial valuation are for the cost of living adjustments provided and are paid by the Montgomery County Employees' Retirement System.

Actuarial Valuation Assets
On a market value basis, the Plan assets had an investment return of approximately 1.42 percent (net of investment expenses). Recognition of the fiscal year end 2012, 2015, and 2016 investment losses were partially offset by recognition of investment gains during fiscal years ending 2013 and 2014, which resulted in an estimated net asset rate of return of 6.86 percent on an actuarial value of assets basis, which compares to the assumed rate of return of 7.50 percent.

Reliance on Others

The actuarial valuation was based upon information furnished by the County Staff, concerning benefits provided by the Montgomery County Employees' Retirement System, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the County Staff.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by County Staff with our input.

Accounting Schedules Under GASB Statement Nos. 67 and 68

The total pension liability (actuarial accrued liability) is based on a measurement date of July 1, 2015, with results projected to July 1, 2016, assuming no liability gains and losses, under the Entry Age Normal actuarial cost method. A single discount rate of 7.50 percent, which is the same rate that is used in the funding actuarial valuation, was used to measure the total pension liability. All other assumptions and methods used in the funding actuarial valuation for calculation of the actuarial accrued liabilities as of July 1, 2016, were used in the GASB 67/68 actuarial valuation for calculation of the total pension liability for fiscal year ending June 30, 2016.

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position (market value of assets) as of June 30, 2016.

Certification

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Montgomery County Employees' Retirement System as of the valuation date of July 1, 2016, based on the data and actuarial techniques described above and applicable statutes. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Lance Weiss and Amy Williams are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements in this report.

This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

Lance Weiss, E.A., F.C.A., M.A.A.A.	Amy Williams, A.S.A., M.A.A.A., F.C.A.
Senior Consultant and Team Leader	Consultant

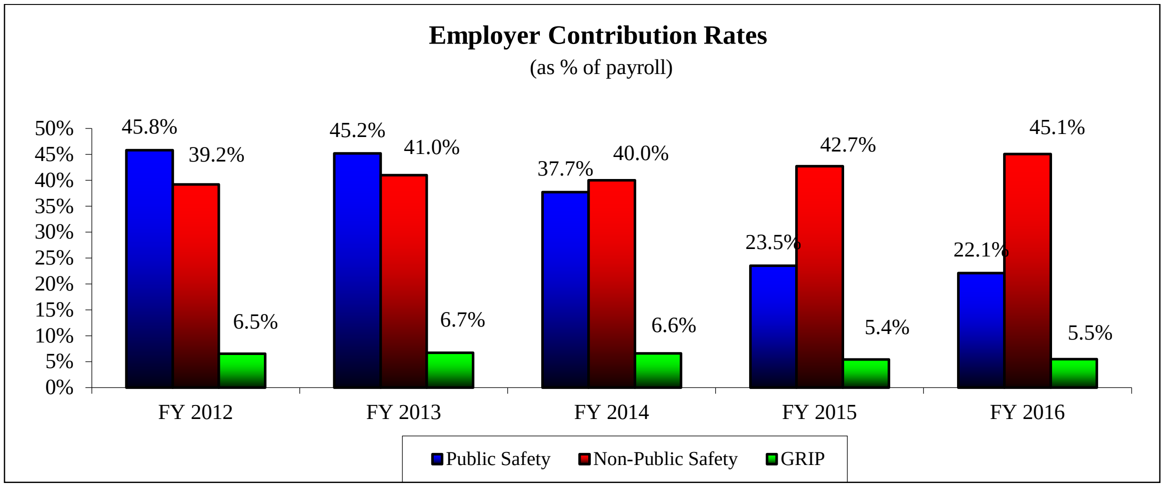
AW:rg

SUMMARY OF VALUATION RESULTS
EMPLOYEES' RETIREMENT SYSTEM

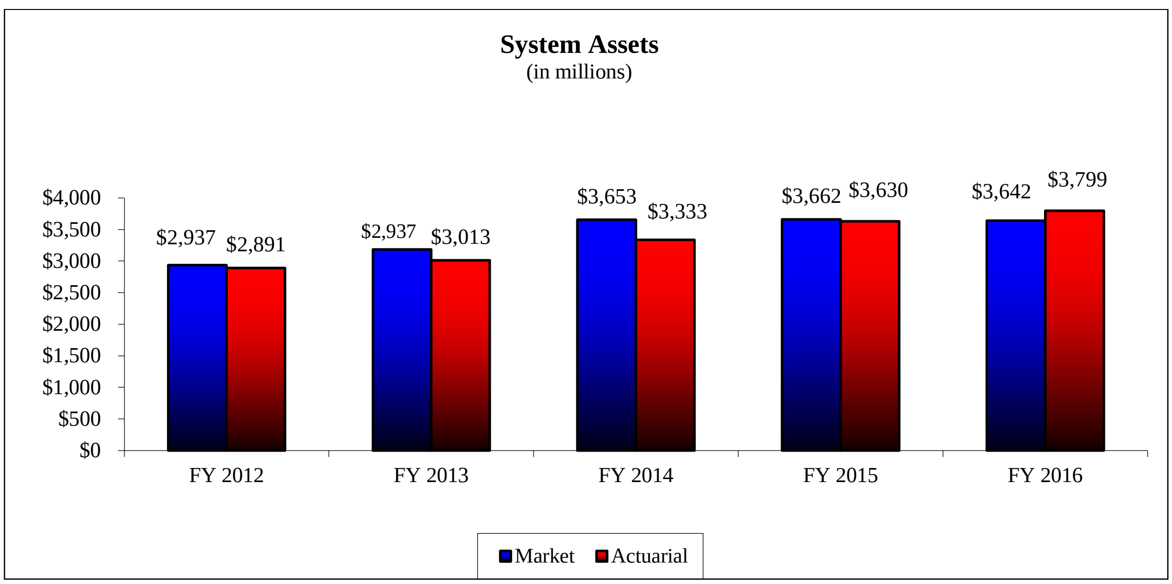
A. Overview

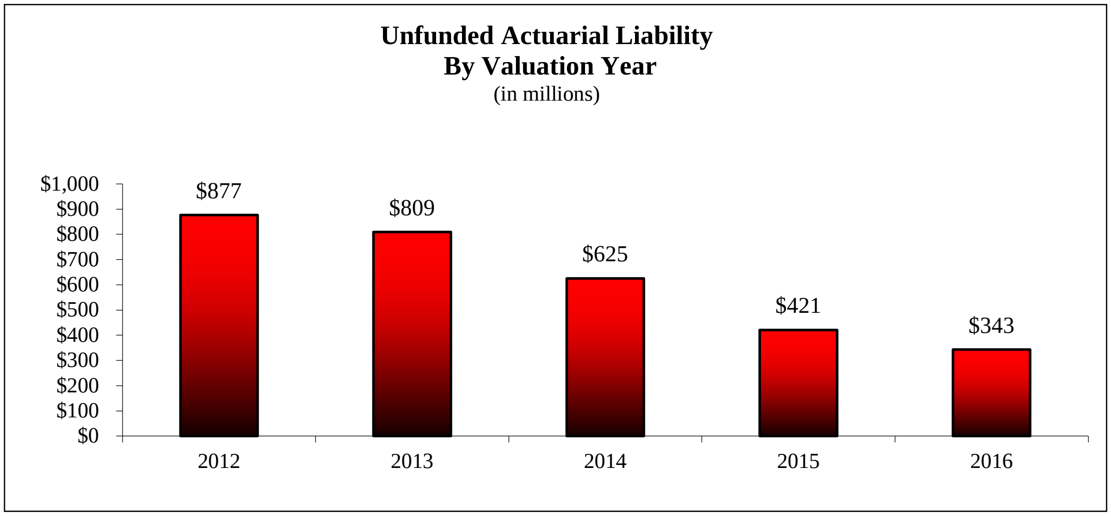
This report presents the results of our June 30, 2016 actuarial valuation of the Montgomery County Employees' Retirement System.

The major findings of the valuation are summarized in the following charts:

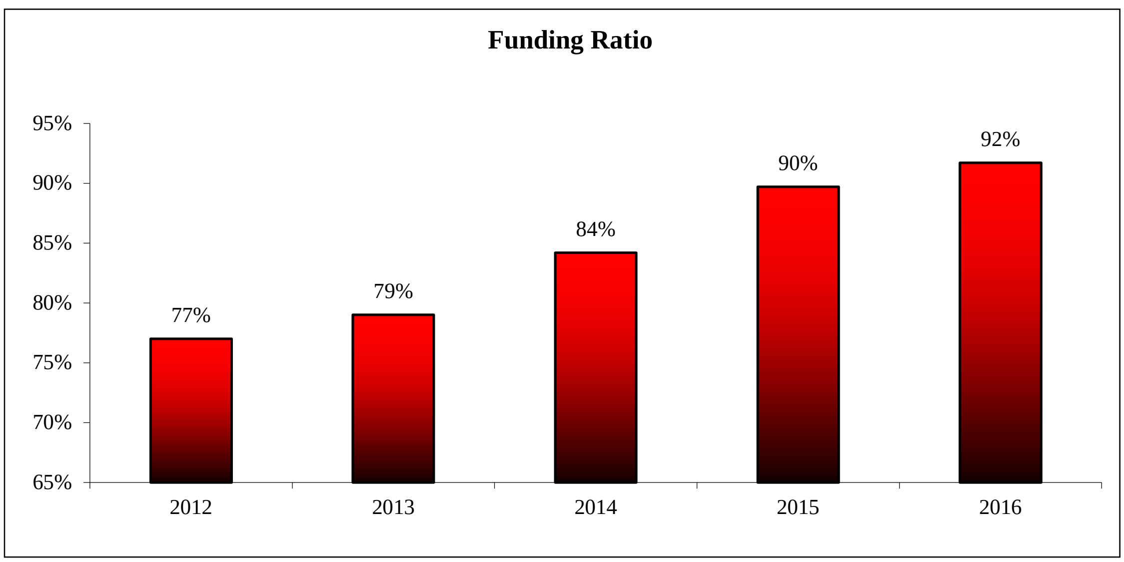


The change in the employer contribution rate in FY 2016 was due to actual System experience versus actuarial assumptions.





The unfunded actuarial liability decreased in FY 2016 primarily due to deferred asset gains and lower than expected cost of living increases for retired members.



The ratio of actuarial assets to the actuarial accrued liability has improved primarily due to the factors noted above.

B. Summary of Results

	July 1, 2015	July 1, 2016
Actuarial Liability		
a. Active Members	$1,352,696,130	$1,393,485,137
b. Retired Members and Beneficiaries	2,671,003,607	2,718,476,430
c. Vested Former Members	27,037,115	29,099,401
d. Total	$4,050,736,852	$4,141,060,968
Valuation Assets	$3,630,075,610	$3,798,555,275
Unfunded Actuarial Accrued Liability	$420,661,242	$342,505,693
Normal Cost		
a. Gross Normal Cost	$73,661,793	$74,716,528
b. Anticipated Employee Contributions	$24,551,555	$24,812,730
c. County Normal Cost (a -b)	$49,110,238	$49,903,798
Amortization Payment	$42,872,473	$39,202,730
County Contribution Required at Date Shown	$91,982,711	$89,106,528
County FY 2016/FY 2017 Contribution		
(as a % of covered payroll)		
Public Safety Employees	23.51%	22.05%
Non-Public Safety Employees	42.71%	45.12%
Guaranteed Retirement Income Plan	5.35%	5.46%

C. Valuation Highlights

1. System Assets

As of June 30, 2016, the System had assets, valued at market, of $3.642 billion, as compared to $3.662 billion at June 30, 2015. The decrease of $20 million was attributable to the following:

a. An increase of $162 million from employer and employee contributions;
b. An increase of $58 million from investment gain;
c. A decrease of $240 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were $3.799 billion at June 30, 2016, and $3.630 billion at June 30, 2015. The asset valuation method smooths the fluctuations generated by intermittent market gains and losses. This method phases-in investment gains and losses arising during and after the 1994 fiscal year over a five-year period from the date established. Effective July 1, 1997, the calculation of the actuarial value of assets was changed to exclude the present value of estimated accrued contributions.

2. System Liabilities

The Unfunded Actuarial Liability decreased $78 million, from $421 million at July 1, 2015, to $343 million at July 1, 2016, as follows:

Unfunded Actuarial Liability at beginning of year	$	420,661,242
Unfunded Actuarial Liability at end of year		342,505,693
Decrease in Unfunded Actuarial Liability	$	78,155,549

The decrease in Unfunded Actuarial Liability for the year ended June 30, 2016, is comprised of the following:

Increase due to loss on actuarial value of assets	$	(23,178,967)
Decrease due to demographic gain and other factors		41,438,180
Decrease due to amortization payment and contributions		59,896,336
Increase/decrease due to plan changes		0
Decrease in Unfunded Actuarial Liability	$	78,155,549

3. System Contributions

Contributions to the System include a "normal cost" rate which covers the portion of projected liabilities related to service of members. In addition, an amortization payment is made to fund the unfunded liability related to changes made to benefits in previous years which are being funded over a specific period of time.

The increase/decrease in the employer contribution rate is attributable to the following:

	Non-Public Safety (non-GRIP)		Public Safety (non-GRIP)		GRIP	
Employer contribution rate - June 30, 2015	42.71	%	23.51	%	5.35	%
Increase due to gain on actuarial value of assets	1.69		0.42		0.06	
Increase/decrease due to actuarial gains & losses	0.72		(1.88)		0.05	
Increase/decrease due to plan changes	0.00		0.00		0.00	
Increase/decrease due to assumption and method changes	0.00		0.00		0.00	
Employer contribution rate - June 30, 2016	45.12	%	22.05	%	5.46	%

4. Membership

The active membership of the System decreased from 5,541 at June 30, 2015 to 5,513 at June 30, 2016. The System was closed to all new employees hired after October 1, 1994, except public safety, bargaining unit employees and GRIP participants. Inactive members, including retirees and beneficiaries, increased from 6,380 at June 30, 2014 to 6,453 at June 30, 2016 and the number of former members with vested rights decreased from 402 to 395.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM

A. Funding Method

The funding method used for the System's valuation is the "Individual Entry-Age Normal" actuarial cost method. The objective of this method is to finance the benefits of the System as a level percentage of payroll over the members' careers. The normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement. Each annual normal cost is a constant percentage of the member's year by year projected covered pay. An *actuarial liability* is calculated at the valuation date as the present value of benefits allocated to service prior to that date. The *Unfunded Actuarial Liability* at the valuation date is the excess of the actuarial liability over the assets of the System.

B. Actuarial Value of Assets

The actuarial value of assets is used for purposes of determining the County's contribution to the System. The asset adjustment method dampens the volatility of asset values that could occur because of short term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process. Assets are valued at market value but with a phase-in of investment gains and losses arising after July 1, 1994, over a 5-year period. The gains and losses are net of expenses. Effective July 1, 1997, the calculation of the actuarial value of assets does not include the present value of accrued contributions.

ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM

A. Demographic Assumptions

1. Mortality

MP-2014 Employee and Healthy Annuitant (non-disabled)

	Pre-Retirement Future Life Expectancy (years) in 2016		Post-Retirement Future Life Expectancy (years) in 2016			Pre-Retirement Future Life Expectancy (years) in 2016		Post-Retirement Future Life Expectancy (years) in 2016	
Age	**Men**	**Women**	**Men**	**Women**	**Age**	**Men**	**Women**	**Men**	**Women**
20	69.21	73.49	66.86	69.82	65	22.61	26.59	21.81	23.91
25	63.88	68.16	61.45	64.38	70	18.23	21.79	17.65	19.53
30	58.55	62.83	56.09	58.99	75	14.17	17.18	13.78	15.45
35	53.21	57.52	50.79	53.69	80	10.51	12.81	10.31	11.75
40	47.88	52.21	45.58	48.48	85	7.36	8.89	7.37	8.54
45	42.58	46.94	40.48	43.36	90	5.06	6.00	5.07	5.96
50	37.35	41.72	35.53	38.32	95	3.52	4.10	3.52	4.10
55	32.24	36.59	30.77	33.37	100	2.51	2.87	2.51	2.87
60	27.30	31.54	26.20	28.55	105	1.89	2.10	1.89	2.10

2. Rates of Termination of Employment (prior to retirement eligibility)

Years of Service	Non-Public Safety and GRIP		Public Safety Group E		Public Safety Group F and G	
	Male	**Female**	**Male**	**Female**	**Male**	**Female**
0	11.50%	12.50%	12.00%	15.00%	6.00%	9.00%
1	9.50	10.50	10.00	12.00	5.00	7.00
2	8.00	9.50	6.00	7.00	4.00	5.00
3	6.00	6.50	5.00	6.50	3.00	4.50
4	4.50	4.50	4.00	4.00	2.50	3.50
5	4.00	4.25	3.90	3.90	2.25	3.00
6	4.00	4.25	3.80	3.80	2.00	2.75
7	4.00	4.25	3.70	3.70	1.75	2.50
8	4.00	4.25	3.60	3.60	1.50	2.00
9	4.00	4.25	3.50	3.50	1.25	1.75
10	3.25	2.75	2.00	2.00	1.00	1.50
11	3.25	2.75	1.50	1.50	0.75	1.25
12	3.25	2.75	1.00	1.00	0.50	1.00
13	3.25	2.75	1.00	1.00	0.50	0.75
14	3.25	2.75	1.00	1.00	0.50	0.50
15+	2.00	2.50	1.00	1.00	0.50	0.50

Vested participants that terminate are assumed to elect the option with the greater present value:

1) A refund of their accumulated contributions with interest or
2) A deferred benefit.

3. Disability

Annual Disabilities per 1,000 Members

	Non-Public Safety Employees		Public Safety Employees					
			Group E		Group F		Group G	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
20	0	0	1	0	1	1	1	1
25	1	0	1	1	2	3	2	3
30	1	0	2	2	4	8	4	8
35	1	1	3	3	5	12	5	12
40	2	1	4	5	7	16	9	16
45	3	3	7	12	13	44	16	44
50	6	4	11	17	22	59	26	59
55	7	4	14	17	27	62	35	62
60	8	4	14	17	27	62	35	62

4. Deaths

Disabled Mortality
Future Life Expectancy (years) in 2016

Age	Men	Women
20	60.67	61.59
25	55.28	56.19
30	49.96	50.89
35	44.73	45.69
40	39.64	40.59
45	34.71	35.56
50	29.94	30.62
55	25.35	25.83
60	20.97	21.31
65	16.86	17.11
70	13.11	13.29
75	9.75	9.87
80	6.92	7.02

5. Rates of Retirement

Age	Non Public Safety: Under 30 Years of Service	Non Public Safety: 30 Years of Service & Over	GRIP: Under 15 Years of Service	GRIP: 15 Years of Service & Over
45 - 49	2.0%	2.0%	0.0%	0.0%
50 - 54	3.0	15.0	0.0	0.0
55	6.0	15.0	3.0	3.0
56	6.0	15.0	3.0	3.0
57	6.0	15.0	6.0	6.0
58	8.0	15.0	6.0	6.0
59	8.0	15.0	6.0	6.0
60	13.0	18.0	6.0	10.0
61	13.0	18.0	6.0	10.0
62	13.0	18.0	8.0	25.0
63	13.0	18.0	8.0	25.0
64	13.0	18.0	8.0	25.0
65 - 69	20.0	25.0	20.0	30.0
70 - 74	40.0	40.0	50.0	50.0
75	100.0	100.0	100.0	100.0

Public Safety

Age	Group E: Under 25 Years of Service	Group E: 25 Years of Service & Over	Group F: Under 25 Years of Service	Group F: 25 Years of Service	Group F: 26 Years of Service & Over	Group G: Under 20 or 21 - 24 Years of Service	Group G: 20 Years of Service	Group G: 25 Years of Service & Over
Under 42	3.5%	3.5%	2.5%	20.0%	2.5%	2.5%	10.0%	5.0%
42 - 44	3.5	3.5	2.5	20.0	2.5	5.0	10.0	5.0
45	3.5	8.0	2.5	20.0	2.5	7.5	10.0	10.0
46	3.5	8.0	3.5	20.0	3.5	7.5	10.0	10.0
47	3.5	8.0	4.5	20.0	4.5	7.5	10.0	10.0
48	3.5	8.0	5.5	20.0	5.5	7.5	10.0	10.0
49	3.5	8.0	6.5	20.0	6.5	7.5	10.0	10.0
50	10.0	10.0	10.0	20.0	20.0	10.0	15.0	17.5
51	10.0	10.0	10.0	20.0	20.0	10.0	15.0	17.5
52	10.0	12.0	10.0	20.0	20.0	12.5	20.0	25.0
53	10.0	12.0	15.0	25.0	25.0	12.5	20.0	25.0
54	10.0	12.0	15.0	25.0	25.0	12.5	20.0	25.0
55 - 59	15.0	30.0	15.0	40.0	40.0	20.0	40.0	35.0
60 - 64	25.0	50.0	25.0	70.0	70.0	40.0	40.0	40.0
65	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Actuarial Assumptions and Methods
Employees' Retirement System (Concluded)

6. Sick Leave Credit

Service credit is increased by 2.2% for Group A employees, 2.5% for Group E employees, 4.0% for Group F employees, 3.1% for Group G employees, and 1.6% for Group H employees to account for additional credit from unused sick leave. Sick leave is capped at 2 years.

7. Marital assumption

80% of active participants are assumed to be married. Women are assumed to be three years younger than their spouses.

B. Economic Assumptions

1. Investment Return: 7.5% compound per annum

2. Cost-of-Living Increases: 2.75% on credited service earned prior to June 30, 2011. 2.3% on credited service earned on or after July 1, 2011, reflecting the 2.5% cap

3. Increase in Social Security Wage Base: 3.25% compound per annum

4. Expense load: Assumed administrative expenses are based on 105% of the average of the administrative expenses over the past three years. For FY 2018 this figure is $3,028,300.

5. Salary Increase: Merit and promotional increases assumed to be based on service as shown below:

Service	Non-Public Safety*	Service	Group E	Service	Group F	Service	Group G
1	6.00%	1	9.50%	1 – 3	8.00%	1	9.50%
2	5.50	2	9.00	4	6.50	2	9.00
3	5.00	3	7.00	5	6.00	3	7.00
4	4.50	4	6.50	6	5.50	4	6.50
5 – 10	4.00	5	6.00	7	5.00	5 – 10	6.00
11+	3.25	6	5.50	8	4.50	11 – 15	4.50
		7	5.00	9 – 20	4.00	16 – 20	4.00
		8	4.50	21+	3.25	21+	3.25
		9 – 20	4.00				
		21+	3.25				

** Includes GRIP*

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	2013	2014	2015	2016
Investment gain/(loss)	$ (33,134,494)	$ 163,194,287	$ 107,001,671	$ (23,178,967)
Combined liability experience	93,060,972	7,865,965	81,145,514	86,796,201
Gain/(loss) during year	$ 59,926,478	$ 171,060,252	$ 188,147,185	$ 63,617,234

Aggregate Accrued Liability

Valuation Date	(1) Active Members Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (%) (1)	(2)	(3)
6/30/2009	$ 200,669,572	$ 1,892,331,796	$ 1,396,056,191	$ 2,736,010,044	100	100	46
6/30/2010	213,191,851	2,054,949,883	1,377,434,607	2,791,144,974	100	100	38
6/30/2011	236,934,960	2,181,816,842	1,325,970,792	2,869,422,276	100	100	34
6/30/2012	210,537,737	2,465,714,392	1,092,493,833	2,891,435,563	100	100	20
6/30/2013	248,331,006	2,526,844,154	1,046,205,572	3,012,547,244	100	100	23
6/30/2014	265,055,643	2,585,446,584	1,108,427,491	3,333,484,724	100	100	44
6/30/2015	280,135,577	2,698,040,722	1,072,560,553	3,630,075,610	100	100	61
6/30/2016	297,715,372	2,747,575,831	1,095,769,765	3,798,555,275	100	100	69

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 1, 2009	**4,993**	**386**	**5,379**
New retirements & disabilities	328	0	328
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(88)	(28)	(116)
July 1, 2010	**5,211**	**380**	**5,591**
New retirements & disabilities	282	0	282
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(154)	(7)	(161)
July 1, 2011	**5,319**	**393**	**5,712**
New retirements & disabilities	201	0	201
Deaths with beneficiaries	(47)	47	0
Deaths/benefits ended	(87)	(2)	(89)
July 1, 2012	**5,386**	**438**	**5,824**
New retirements & disabilities	269	0	269
Deaths with beneficiaries	(38)	38	0
Deaths/benefits ended	(104)	(28)	(132)
July 1, 2013	**5,513**	**448**	**5,961**
New retirements & disabilities	400	0	400
Deaths with beneficiaries	(23)	23	0
Deaths/benefits ended	(100)	(19)	(119)
July 1, 2014	**5,790**	**452**	**6,242**
New retirements & disabilities	264	0	264
Deaths with beneficiaries	(24)	24	0
Deaths/benefits ended	(98)	(28)	(126)
July 1, 2015	**5,932**	**448**	**6,380**
New retirements & disabilities	203	0	203
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(107)	(23)	(130)
July 1, 2016	**6,008**	**445**	**6,453**

SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 2009	**$ 164,350,720**	**$ 6,150,629**	**$ 170,501,349**
Average Annual Allowance	32,916	15,934	31,698
Annual Allowances Added to the Rolls	13,218,960	304,035	13,522,995
Annual Allowances Removed From the Rolls	(1,306,672)	(419,291)	(1,725,963)
July 2010	**$ 176,263,008**	**$ 6,035,373**	**$ 182,298,381**
Average Annual Allowance	33,825	15,883	32,606
Annual Allowances Added to the Rolls	14,287,432	580,328	14,867,760
Annual Allowances Removed From the Rolls	(868,937)	(103,095)	(972,032)
July 2011	**$ 189,681,503**	**$ 6,512,606**	**$ 196,194,109**
Average Annual Allowance	35,661	16,572	34,348
Annual Allowances Added to the Rolls	8,947,253	1,102,270	10,049,523
Annual Allowances Removed From the Rolls	(2,498,388)	(34,529)	(2,532,917)
July 2012	**$ 196,130,368**	**$ 7,580,347**	**$ 203,710,715**
Average Annual Allowance	36,415	17,307	34,978
Annual Allowances Added to the Rolls	11,709,284	867,622	12,576,906
Annual Allowances Removed From the Rolls	(5,027,794)	(572,950)	(5,600,744)
July 2013	**$ 202,811,858**	**$ 7,875,019**	**$ 210,686,877**
Average Annual Allowance	36,788	17,578	35,344
Annual Allowances Added to the Rolls	21,907,364	699,388	22,606,753
Annual Allowances Removed From the Rolls	(3,506,950)	(217,824)	(3,724,774)
July 2014	**$ 221,212,272**	**$ 8,356,583**	**$ 229,568,855**
Average Annual Allowance	38,206	18,488	36,778
Annual Allowances Added to the Rolls	8,938,666	612,732	9,551,398
Annual Allowances Removed From the Rolls	(3,140,736)	(366,643)	(3,507,379)
July 2015	**$ 227,010,202**	**$ 8,602,672**	**$ 235,612,874**
Average Annual Allowance	38,269	19,202	36,930
Annual Allowances Added to the Rolls	8,783,325	490,043	9,273,368
Annual Allowances Removed From the Rolls	(3,486,640)	(535,806)	(4,022,446)
July 2016	**$ 232,306,887**	**$ 8,556,909**	**$ 240,863,796**
Average Annual Allowance	**38,666**	**19,229**	**37,326**

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
July 1, 2009	5,012	$376,014,994	$75,023	0.96%
July 1, 2010	5,786	431,226,155	74,529	-0.66
July 1, 2011	5,515	405,336,529	73,497	-1.38
July 1, 2012	5,554	398,460,248	71,743	-2.39
July 1, 2013	5,606	395,988,026	70,636	-1.54
July 1, 2014	5,535	402,899,096	72,791	3.05
July 1, 2015	5,541	418,728,584	75,569	3.82
July 1, 2016	5,513	427,622,475	77,566	2.64

STATISTICAL SECTION

Employee Retirement Plans

STATISTICAL SECTION

The Statistical Section presents detailed information in the areas shown below, as a context for understanding what the information in the Financial Section says about the overall financial health of the Employee Retirement Plans:

The schedules beginning on page 80 are designed to show financial trend information to assist users in understanding and assessing how the Employee Retirement Plans' financial position has changed over the past ten years. The financial trend schedules presented are:

- Changes in Fiduciary Net Position – Information to help the reader understand the Plans' historical contributions, earnings, and expenses.

- Benefit, Refund and Distribution Deductions from Fiduciary Net Position – Information to help the reader understand the historical benefits, refund, and distribution deductions.

The schedules beginning on page 86 display demographic, economic, and operating information. The demographic and economic information is intended to assist users in understanding the environment in which the Employee Retirement Plans operate. The operating information is intended to provide contextual information about the Employee Retirement Plans' operations to assist readers in using financial statement information. The demographic and economic information and the operating information presented include:

- Principal Participating Employers
- Retired Members by Benefit Type
- Average Benefit Amounts
- Retired Members by Type of Retirement
- Average Benefit Payments and Average Final Valuation Pay
- Schedule of Participating Agencies and Political Subdivisions

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
JUNE 30, 2016
LAST TEN FISCAL YEARS
(dollars in thousands)

	2007	2008	2009	2010	2011
Additions					
Member contributions	$ 16,362	$ 18,851	$ 18,245	$ 20,431	$ 18,592
Employer contributions	109,436	117,686	109,567	113,958	109,344
Transfer of member account asset balances	-	-	-	31,530	-
Investment income (loss) (net of expenses)	420,847	(81,746)	(428,525)	304,185	510,018
Total additions	546,645	54,791	(300,713)	470,104	637,954
Deductions					
Benefit payments	136,833	147,027	168,618	169,089	178,792
Refunds	793	673	668	1,415	1,568
Administrative expenses	2,431	2,557	2,803	2,907	3,079
Total deductions	140,057	150,257	172,089	173,411	183,439
Change in net position	$ 406,588	$ (95,466)	$ (472,802)	$ 296,693	$ 454,515

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM FIDUCIARY NET POSITION BY TYPE
JUNE 30, 2016
LAST TEN FISCAL YEARS
(dollars in thousands)

	2007*	2008	2009	2010	2011
Type of Benefit					
Service benefits:					
Retirees	$ 98,653	$ 105,369	$ 123,560	$ 122,861	$ 129,941
Survivors	5,952	6,723	7,333	7,620	7,944
Disability	32,228	34,935	37,725	38,608	40,907
Total benefits	$ 136,833	$ 147,027	$ 168,618	$ 169,089	$ 178,792
Refund of Contributions	$ 793	$ 673	$ 668	$ 1,415	$ 1,568

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

2012	2013	2014	2015	2016
$ 22,833	$ 24,854	$ 26,463	$ 26,627	$ 27,056
107,855	127,888	144,710	151,302	134,806
-	-	-	-	-
117,692	307,859	534,397	67,071	57,676
248,380	460,601	705,570	245,000	219,538
202,773	208,804	229,664	230,647	230,696
2,495	1,925	4,330	2,874	5,887
3,546	2,401	2,954	2,685	3,014
208,814	213,130	236,948	236,206	239,597
$ 39,566	$ 247,471	$ 468,622	$ 8,794	$ (20,059)

2012	2013	2014	2015	2016
$ 150,413	$ 153,566	$ 172,472	$ 171,785	$ 171,391
8,233	8,602	8,586	8,982	9,017
44,127	46,636	48,606	49,880	50,288
$ 202,773	$ 208,804	$ 229,664	$ 230,647	$ 230,696
$ 2,495	$ 1,925	$ 4,330	$ 2,874	$ 5,887

MONTGOMERY COUNTY, MARYLAND
RETIREMENT SAVINGS PLAN
SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
JUNE 30, 2016
LAST TEN FISCAL YEARS
(dollars in thousands)

	2007	2008	2009	2010	2011
Additions					
Member contributions	$ 6,798	$ 8,118	$ 11,263	$ 8,871	$ 8,686
Employer contributions	11,227	13,583	20,625	16,401	16,072
Transfer of member account asset balances	-	-	-	(31,530)	-
Investment income (loss) (net of expenses)	17,174	(8,383)	(26,722)	14,191	32,877
Total additions	35,199	13,318	5,166	7,933	57,635
Deductions					
Distributions	4,455	5,216	3,669	3,902	5,854
Administrative expenses	293	258	300	237	244
Total deductions	4,748	5,474	3,969	4,139	6,098
Change in net position	$ 30,451	$ 7,844	$ 1,197	$ 3,794	$ 51,537

MONTGOMERY COUNTY, MARYLAND
RETIREMENT SAVINGS PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM FIDUCIARY NET POSITION
JUNE 30, 2016
LAST TEN FISCAL YEARS
(dollars in thousands)

	2007	2008	2009	2010	2011
Distributions	$ 4,455	$ 5,216	$ 3,669	$ 3,902	$ 5,854

2012	2013	2014	2015	2016
$ 8,435	$ 8,274	$ 8,695	$ 9,728	$ 10,714
11,792	15,629	17,117	18,502	19,682
-	-	-	-	-
143	23,716	42,432	7,493	500
20,370	47,619	68,244	35,723	30,896
6,950	9,389	11,682	12,694	10,055
305	201	197	235	181
7,255	9,590	11,879	12,929	10,236
$ 13,115	$ 38,029	$ 56,365	$ 22,794	$ 20,660

2012	2013	2014	2015	2016
$ 6,950	$ 9,389	$ 11,682	$ 12,694	$ 10,055

MONTGOMERY COUNTY, MARYLAND
DEFERRED COMPENSATION PLAN
SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
JUNE 30, 2016
LAST TEN FISCAL YEARS
(dollars in thousands)

	2007	2008	2009	2010	2011
Additions					
Member contributions	$ 16,649	$ 17,294	$ 18,058	$ 17,029	$ 17,029
Investment income (loss) (net of expenses)	32,394	(9,378)	(44,479)	19,411	42,988
Total additions	49,043	7,915	(26,421)	36,440	60,017
Deductions					
Distributions	12,410	15,714	13,391	8,723	16,178
Administrative expenses	-	-	-	-	-
Total deductions	12,410	15,714	13,391	8,723	16,178
Change in net position	$ 36,633	$ (7,799)	$ (39,812)	$ 27,717	$ 43,839

MONTGOMERY COUNTY, MARYLAND
DEFERRED COMPENSATION PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM FIDUCIARY NET POSITION
JUNE 30, 2016
LAST TEN FISCAL YEARS
(dollars in thousands)

	2007	2008	2009	2010	2011
Distributions	$ 12,410	$ 15,714	$ 13,391	$ 8,723	$ 16,178

2012	2013	2014	2015	2016
$ 14,974	$ 18,229	$ 17,011	$ 19,229	$ 18,761
286	34,096	48,864	15,259	(63)
15,260	52,325	65,875	34,488	18,698
17,688	19,847	25,506	26,123	22,374
-	-	-	-	-
17,688	19,847	25,506	26,123	22,374
$ (2,428)	$ 32,478	$ 40,369	$ 8,365	$ (3,676)

2012	2013	2014	2015	2016
$ 17,688	$ 19,847	$ 25,506	$ 26,123	$ 22,374

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT FISCAL YEAR AND NINE YEARS AGO
JUNE 30, 2016

	2016*		2007	
Participating Government	**Covered Employees**	**Percentage of Total System**	**Covered Employees**	**Percentage of Total System**
Montgomery County	5,370	97.4%	5,102	96.2%
Town of Chevy Chase	1	0.0%	5	0.1%
Strathmore Hall	9	0.2%	7	0.1%
Housing Opportunities Commission	127	2.3%	147	2.8%
Revenue Authority	4	0.1%	15	0.3%
Washington Suburban Transit Commission	-	-	1	0.1%
Montgomery County Employees Federal Credit Union	1	0.0%	8	0.2%
State Department of Assessment and Taxation	-	-	5	0.1%
District Court	1	0.0%	4	0.1%
Total	5,513	100%	5,294	100%

* Includes GRIP participants

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
JUNE 30, 2016

Fiscal Year	Retiree	Disability	Survivor	Total
2007*	3,661	975	361	4,997
2008	3,905	1,021	380	5,306
2009	3,957	1,036	386	5,379
2010	4,132	1,079	380	5,591
2011	4,245	1,074	393	5,712
2012	4,309	1,077	438	5,824
2013	4,412	1,101	448	5,961
2014	4,669	1,121	452	6,242
2015	4,807	1,125	448	6,380
2016	4,882	1,126	445	6,453

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT AMOUNTS
JUNE 30, 2016

Fiscal Year	Retiree	Disability	Survivor	Total
2007*	26,947	33,055	16,487	27,383
2008	26,983	34,216	17,692	27,710
2009	31,226	36,414	18,997	31,347
2010	29,734	35,781	20,052	30,243
2011	30,610	38,088	20,214	31,301
2012	34,907	40,972	18,797	34,817
2013	34,807	42,357	19,201	35,028
2014	36,940	43,360	18,995	36,793
2015	35,736	44,337	20,049	36,152
2016	35,107	44,660	20,263	35,750

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT
AS OF JUNE 30, 2016

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement [a]			Option Selected [b]						
		1	2	3	1	2	3	4	5	6	7
Deferred	395										
$ 1 – $ 500	471	406	59	6	241	109	15	7	38	18	43
501 – 1,000	574	438	114	22	249	128	30	18	44	39	66
1,001 – 1,500	660	494	96	70	266	149	26	22	50	41	106
1,501 – 2,000	577	442	54	81	226	134	22	30	20	51	94
2,001 – 2,500	583	429	42	112	222	131	17	30	21	53	109
2,501 – 3,000	533	397	24	112	172	119	13	30	28	62	109
3,001 – 3,500	521	352	22	147	160	123	9	26	22	71	110
3,501 – 4,000	474	341	11	122	144	116	7	23	17	70	97
Over 4,000	2,060	1,583	23	454	836	459	7	101	60	311	286
Total	6,848	4,882	445	1,126	2,516	1,468	146	287	300	716	1,020

Notes:

[a] Type of retirement:
1—Retiree
2—Beneficiary
3—Disabled Retiree

[b] Option selected:
Option 1—Modified Cash Refund
Option 2—Certain and Continuous
Option 3—Life Annuity
Option 4—Joint and Survivor 50%
Option 5—Joint and Survivor 100%
Option 6—Other Joint and Survivor Options
Option 7—Social Security Adjustment Options

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT PAYMENTS AND AVERAGE FINAL VALUATION PAY
LAST EIGHT FISCAL YEARS

	Years Credited Service						
	0 – 5	5 – 10	10 – 15	15 – 20	20 – 25	25 – 30	30 +
Retirement Effective Dates							
Period 7/1/2008 to 6/30/2009							
Average monthly benefit*	$ -	$ -	$ 2,821	$ 2,760	$ 3,560	$ 4,309	$ 5,425
Average final valuation pay**	$ -	$ -	$ 77,385	$ 77,304	$ 88,521	$ 87,167	$ 98,906
Number of retired members***	-	-	5	20	21	16	12
Period 7/1/2009 to 6/30/2010							
Average monthly benefit*	$ -	$ 3,212	$ 2,747	$ 2,815	$ 3,548	$ 4,008	$ 5,289
Average final valuation pay**	$ -	$ 63,839	$ 82,064	$ 83,152	$ 85,524	$ 83,495	$ 86,947
Number of retired members***	-	6	6	43	49	39	68
Period 7/1/2010 to 6/30/2011							
Average monthly benefit*	$ 1,965	$ 3,412	$ 2,674	$ 3,091	$ 3,303	$ 4,136	$ 5,079
Average final valuation pay**	$ 46,807	$ 65,268	$ 65,263	$ 85,031	$ 82,627	$ 88,067	$ 84,544
Number of retired members***	1	4	5	37	80	50	57
Period 7/1/2011 to 6/30/2012							
Average monthly benefit*	$ -	$ -	$ 1,738	$ 1,840	$ 3,020	$ 5,064	$ 5,546
Average final valuation pay**	$ -	$ -	$ 56,551	$ 61,633	$ 80,696	$ 98,400	$ 90,742
Number of retired members***	-	-	3	14	30	34	57
Period 7/1/2012 to 6/30/2013							
Average monthly benefit*	$ -	$ 331	$ 1,595	$ 2,147	$ 3,063	$ 4,641	$ 5,845
Average final valuation pay**	$ -	$ 50,497	$ 56,936	$ 72,901	$ 76,904	$ 90,509	$ 94,904
Number of retired members***	-	1	5	17	46	38	69
Period 7/1/2013 to 6/30/2014							
Average monthly benefit*	$ -	$ -	$ -	$ 2,636	$ 2,941	$ 4,552	$ 5,790
Average final valuation pay**	$ -	$ -	$ -	$ 71,521	$ 75,097	$ 90,425	$ 92,772
Number of retired members***	-	-	-	17	53	98	71
Period 7/1/2014 to 6/30/2015							
Average monthly benefit*	$ -	$ -	$ 2,231	$ 1,654	$ 3,273	$ 4,388	$ 5,062
Average final valuation pay**	$ -	$ -	$ 72,858	$ 62,439	$ 82,958	$ 90,297	$ 91,982
Number of retired members***	-	-	1	11	49	74	57
Period 7/1/2015 to 6/30/2016							
Average monthly benefit*	$ -	$ -	$ 1,697	$ 2,309	$ 3,054	$ 4,510	$ 5,274
Average final valuation pay**	$ -	$ -	$ 65,941	$ 74,376	$ 84,079	$ 94,265	$ 99,878
Number of retired members***	-	-	6	5	32	63	37

* Based on current benefits only. Does not take into account any future benefits.
** Pay used for last valuation (when member was an active employee).
*** Only includes participants who changed from active to retiree status.

Beginning with periods after 7/1/2011, counts include members that were in DRSP or DROP in the previous valuation and were retired in the current valuation.

SCHEDULE OF PARTICIPATING AGENCIES AND POLITICAL SUBDIVISIONS EMPLOYEES' RETIREMENT SYSTEM RETIREMENT SAVINGS PLAN

Town of Chevy Chase
Strathmore Hall Foundation, Inc.
Housing Opportunities Commission of Montgomery County
Montgomery County Revenue Authority
Washington Suburban Transit Commission
Montgomery County Employees Federal Credit Union

Certain employees of the:
State Department of Assessments and Taxation
District Court of Maryland